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ABSTRACT

Intended as an alternative method of learning for the adult minority business student, this document presents thirty case studies of minority individuals who have started their own business ventures. These case studies are designed to provide material for class discussions, an introduction for role playing, or a resource for individual study. Each case reports the events and circumstances as perceived by the individual business persons and others involved in managing, financing, or otherwise assiting the various ventures. The cases also illustrate the particular problems confronting the minority members who participate in a wide variety of businesses in retail sales, various areas of the service trade, manufacturing, and construction. These case studies form the background for the materials presented in "Minority Ownership of Small Businesses--Instructional Handbook" (see related note). (BM)

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Minority Ownership of Small Businesses

THIRTY CASE STUDIES

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Summary

Minority Ownership of Small Businesses—Thirty Case Studies presents the minority business student an account of the recent experiences of 30 minority individuals who started their own business ventures. It reports the events and circumstances as perceived by the individual business persons and others involved in managing, financing, or otherwise assisting the various ventures. It illustrates the particular problems confronting 30 minority members who found business ownership and management considerably different and more difficult and uncertain than they had expected or had been prepared to confront.

DISCRIMINATION PROHIBITED—Title VI of the Civil Rights Act of 1964 states: "No person in the United States shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial assistance." Therefore, any program or activity supported by the Federal Manpower Development and Training Act, like every program or activity receiving financial assistance from the Department of Health, Education, and Welfare, must be operated in compliance with this law.

Foreword

It has been said that the best way to learn to swim is to jump into a deep pool of water. Some people in fact do learn to swim this way. Others have been known to drown.

Similarly it has been said that experience is the best teacher. Therefore one way to learn about business is to jump right in. This may be true, but the price paid for such a learning experience may be very high.

Minority Ownership of Small Businesses—Thirty Case Studies offers the adult minority business student an alternative method of learning, by presenting him with an account of the recent experiences of 30 minority individuals who started their own business ventures. Learning from the experiences of others will not guarantee subsequent business success, but it should reduce the risk that starting a new business inevitably entails.

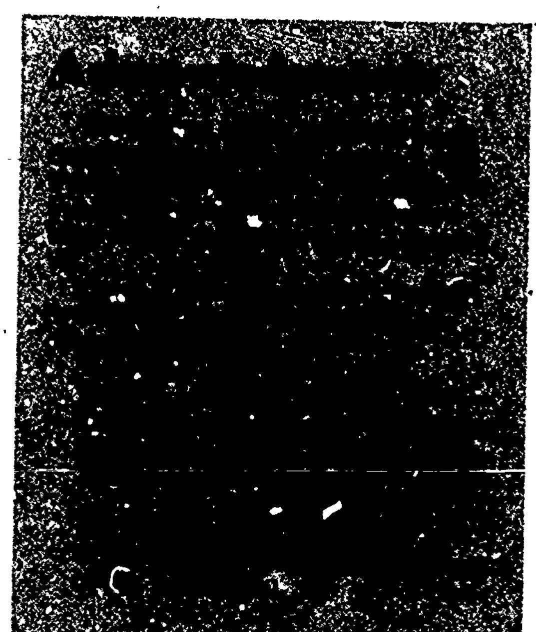
The 30 cases include a wide variety of businesses in retail sales, various areas of the service trade, manufacturing, and construction. Fifteen of these business ventures have failed. Half managed to survive for 2 to 3 years and give indications through profits and growth that they will be successful in the long run. The names of individuals, businesses, and cities have been changed to protect the confidence of the interviewees, but the pertinent information has not been altered.

The teaching staff may draw upon the cases for recent, real-life business experiences relating to the minority situation. In addition, the cases are suited to the introduction of "role playing" in the classroom, with the students taking the parts of the entrepreneurs, suppliers, bankers, board members, etc., in a problem-solving approach. The cases may also serve the purpose of providing a resource for individual study.

Regardless of the teaching methodology employed, this publication can modify and augment existing adult business education curriculums. It is not a substitute for basic, technical business education. Rather, it is valuable as a means of replacing notions, conjecture, or wishful thinking with facts about the minority small-business experience.

Minority Ownership of Small Businesses—Thirty Case Studies forms the background for the material presented in *Minority Ownership of Small Businesses—Instructional Handbook*. It is a companion volume to the *Handbook* and may be used with it in minority business education.

Both have been produced by the Office of Education in cooperation with the Department of Commerce, the Department of Housing and Urban Development, and the Office of Economic Opportunity.



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1. Lincoln Furniture Company, Inc.

In October 1967, Bill Lincoln, 27, and his brother Ralph, 23, decided to become retail distributors of office furniture in Brighton, an Eastern city of about 2 million population with a large business, governmental, and institutional community. During the previous 5 months they had been struggling with a general merchandise mail order business. However, both were eager to explore a new area of greater potential.

The brothers were born and raised in North Carolina, where their father, who had a master's degree in business administration, taught in high school. Bill Lincoln recalls that from the time he was a boy, his father had taught him to be "business minded." For example, when he was 9 his father encouraged him to take a paper route. This venture he recalls as impressing him with the challenge of earning a dollar and the importance of such basic business skills as the efficient management of the accounts receivable. Even at this early age he knew that one day he wanted to go into business for himself. He regarded it as a challenge that had to be met.

To fulfill his business ambition, Bill majored in business administration at an all black college, and received his bachelor's degree in 1961. Ralph also obtained a bachelor's degree in business administration. Later both were to continue their formal business education, after starting their own business, by doing postgraduate study part time at a Brighton college.

Following graduation from college, Bill Lincoln tried working for a variety of businesses, all of which failed to provide him with sufficient satisfaction. For almost 3 years he managed a large bowling alley which included facilities for late evening dancing and socializing. He says this job terminated when he was wrongly accused of selling beer illegally. In 1964 he moved north to Brighton, where he accepted a job in sales for the local marketing division of a large national manufacturer of household cleansing products. Although initially pleased, he later became discouraged with his progress and prospects for rapid advancement.

In early 1967, Bill Lincoln decided it was time to fulfill his ambition of starting his own business. His brother agreed to assist in the venture. They explored alternatives together, and after several months decided upon the mail order business. It seemed to be an uncomplicated business with low initial capital requirements. Apparently, all that one needed to do as a distributor for a wholesale mail order company was to advertise, take orders, and fill the orders through the company. With two or three books—with such topics as *How To Make a Million Dollars in the Mail Order Business*—as guides, they opened for business. At first Bill retained his job with the manufacturer, but he quit in July to devote full time to his own business.

Initial expenses were covered by the brothers' small savings and a $1,000 loan from their father. Not being able to afford office rent, the brothers operated out of their apartment. For the first few months, their major effort consisted of locating mail order companies for whom they might serve as distributor, soliciting a distributorship agreement, buying their advertising catalogs at about 25 cents apiece, and then distributing the catalogs. After this they merely took orders and filled them through the appropriate wholesale company. The major problem was that of obtaining distributorships. The brothers dealt with this by contacting a considerable number of companies through lists provided in the "How To Do It" books, and then by striving to put up a good front when one of the companies responded

favorably and suggested that they meet to discuss a distributorship. In order to give the impression of being an established company the brothers would meet the distributor's representative in a new rental car and take him to discuss the business deal in a nice office leased for $5 per hour.

Customer orders trickled in at first, and then picked up sufficiently to prompt the brothers after 5 months to lease a one-room office in what was primarily a small office building for physicians and dentists. They chose that location mainly because the rent was low at $115 per month, and because there were friends nearby who would let them use their photocopy machine. The office was located in what was considered a rough neighborhood, but the brothers felt that would not hurt business. Sales were made at the customer's place of business and not their own.

Sales grew slowly, and income barely covered the brothers' modest business and living expenses, which included such low budget items as lunching on TV dinners heated in their office. An attempt to borrow $1,000 from a local bank, where for several years they had had their checking and saving accounts, failed. Concluding no one else would loan them money either, they did not apply to any other lending institutions. They considered returning to full-time jobs and running the mail order business on the side, but decided against it. Bill argued that, since they were unmarried and had few financial responsibilities, they should give their business their full effort for as long as possible. He believed such an opportunity might not arise again.

Decision To Enter the Office Furniture Business

In October 1967 Bill received a sample catalog and other information from a large manufacturer of office furniture, and he was struck with the idea that this might be a business worth exploring.

There were two aspects of the office furniture business which appealed to Bill. First, he concluded that since the Brighton area was primarily one of offices—governmental, institutional, and business—the local demand for office furniture should be immense. Second, dealing in furniture offered something he felt his business needed very badly to relieve some of its cash problems: namely, a large cash down payment at the time of sale.

The brothers were successful in obtaining a distributorship. They also purchased 1,000 of the company's catalogs. The brothers then joined the National Office Products Association, and in return for their $35 annual dues received detailed information on the industry, including a suggested accounting system, statistics identifying trends, and industry standards by which one could measure his business' efficiency. Bill says that the information proved very valuable, and claims that "it saved 2 years of experimenting." They also took steps toward establishing a good credit rating for the company so as to hasten the day when they could borrow from banks or suppliers. They acquired whatever credit cards they could in the company's name, and requested that Dun & Bradstreet write a profile on them. Bill advises that this first D&B report did not say much, other than that the firm was new and had potential managerial strength. However, it did provide at least one information source for business contacts to check.

At home in North Carolina at Christmas, the brothers discussed with their father what they had learned thus far about the office furniture business. They concluded it was an area in which they could succeed, and decided to give it their full effort in preference to the general mail order business. Their father loaned them a second $1,000 to assist with expenses.

The First Year

Back in Brighton in January, the brothers moved quickly. Following the advice of a friend, they added another line of office furniture to the medium-to-high quality which they had concluded was their best entree into the industry. There were several other office furniture distributors in and about Brighton, but only one emphasized budget furniture. This competitor was well established and had a furniture showroom which allowed the customer to inspect the furniture before he bought. The two brothers could only sell from catalogs. Nevertheless Mr. Lincoln felt that with a strong sales effort his company could overcome this disadvantage and develop a successful business.

Within a couple of weeks the company made its first sale, $3,800 for furniture from the budget line. The $700 down payment covered the company's January expenses, and confirmed Bill's be-

lief that turning to a product involving a substantial down payment would alleviate the cash shortage problem. Other sales followed, and in February the company added four more lines of furniture, stressing low-priced merchandise.

Meanwhile, the two brothers arrived at an efficient division of the work load. Bill Lincoln was president and the company's major salesman. Ralph Lincoln, who had studied accounting in college, was executive vice president and bookkeeper. The brothers hired a salesman, but he proved ineffective in the "cold canvassing" door-to-door selling approach the company had to employ. He was later replaced because he could not advance beyond being merely an order taker. Bill Lincoln, on the other hand, was able to draw on his earlier sales experience, and proved quite adept at selling with a highly personalized and direct approach. Another employee added at an early date on a part-time basis was Bob Gibson, a handyman who showed the brothers how to assemble the furniture once it arrived, and how to make minor repairs to avoid a delivery refusal. In June the company hired a young woman, a recent graduate with a bachelor's degree in business administration. Although employed as a secretary, she soon became an effective office manager.

In August 1968, Ralph Lincoln had to report to the Army to satisfy a 4-year commitment he had undertaken through the Reserve Officers' Training Corps while in college. Bill advises that the business suffered due to his absence, but since the office administration and accounting systems were already functioning smoothly it was possible to train an assistant to competently handle those functions. Meanwhile Ralph retained his 50 percent of the stock, and he remained in fairly close contact with the business.

The first year of operation was highlighted by Bill's strenuous selling effort, Ralph's organizing of the office administration and bookkeeping system, and their mutual planning for continued expansion.

A second attempt to obtain a loan from their bank failed. Bill initiated loan negotiations with the Small Business Administration but decided not to make an application. He concluded that the time and effort required to obtain a loan could be better used selling. The company added office supplies as a new line in September. The addition gave them more products to sell and increased contact and familiarity with customers, something the brothers believed would increase the sale of furniture. Although they had no storage space, there were suppliers nearby who were willing to warehouse their inventory of office supplies.

On September 30, 1968, the company closed its books on its first accounting year. Bill recalls that when they decided to enter the office furniture distributing business he had expected sales to reach only $50,000 in the first year. Instead the business produced $105,000 in sales in its first accounting year (not a full 12 months), and netted $12,000 in profits.

Subsequent Business Operation

The story of the company's operation since the first year is primarily one of steady growth and expansion, with difficulties encountered but overcome. In October 1968 Bill incorporated his firm as the Lincoln Furniture Company, to give it increased flexibility for obtaining additional financing for future expansion. For similar reasons he decided to spin off his office supplies business into a separate corporation so that now although the businesses, although together under one roof, are separate legal entities.

Marketing—The business now sells a wide range of office products, including furniture, supplies, typewriters, and desk calculators. It also offers interior design and space planning services. While it has done a small amount of selling to the residential market, most of its customers have been either businesses, institutions, or governmental agencies. Eighty percent of sales by dollar value consist of office furniture, 15 percent of supplies, and 5 percent of other. The business has upgraded its line of office furniture, and now sells higher quality merchandise. This has required it to compete with the numerous and stronger companies that sell grade "B" furniture or better. To a limited degree the company has also begun making sales beyond the Brighton area, and Bill soon hopes to establish an office in another city.

Bill Lincoln believes his products and service are essentially equal to that of his competition, and that his prices (100 percent markup on office furniture) and terms are about standard for the industry. He thinks his business makes a better

sales effort than its competitors, and points to his sales training program (which includes sending the salesmen to regular trade shows), the offering of special discounts to new customers, and the free offer of space planning with any furniture purchase. The business still has only a minimal inventory of quick turnover items, and therefore still relies heavily on selling from catalogs. Bill has advertised very little, primarily in the yellow pages of the telephone book.

Finance—The business now has an administrative staff of three to keep up with the billing and bookkeeping and a certified public accountant to prepare quarterly financial statements and the annual tax returns. Recordkeeping has presented no problems.

The business buys its office supplies from four firms and its furniture from about 35. Bill pays close attention to prices and terms and is alert to take advantage of any cash or quantity discounts available. He makes a strong effort to establish close personal relationships with his suppliers in order to get special terms or prices whenever possible. He is strongly influenced by the manner in which his suppliers treat him, and he directs his sales force and bookkeeper to take that into account when they are pushing particular lines or paying the firm's bills.

As the business has grown, its fixed costs have increased substantially, and now total about $8,000 per month. Drastically in need of warehousing facilities of its own, the business recently moved into a combination warehouse and office building in an area heavily populated with wholesalers and distributors. It was the first black firm to locate in the area. Rent is $700 per month. Salaries have risen as the number of employees has grown steadily to its current level of 13. After operating 2 years without insurance coverage—something which Bill Lincoln now realizes was very risky—the business now has a complete insurance and bonding package, which includes a $100,000 "key man" life insurance policy on Bill. The total insurance and bonding cost is approximately $3,000 per year. The business owns a truck and a delivery van, and rents additional vehicles when needed.

In late 1969 the company ran into a cash flow problem when the heavy cost of expansion happened to coincide with a very tight money period. Many customers fell behind in their payments. As a result the business was delayed in making its own supplier payments, and suffered through about 5 months of a tight cash position. During this difficult period some suppliers proved understanding and others did not. After the problem eased, Bill initiated a policy of favoritism toward those suppliers who had stuck by him.

After this period of difficulty in managing his cash flow, Mr. Lincoln established revolving lines of credit totaling $80,000 at two Brighton banks. He wanted to be certain he would not be caught short of cash again. When necessary he can now borrow against these credit lines by pledging an appropriate amount of his accounts receivable. He also borrowed $2,500 from a third bank, and repaid the loan promptly to insure his good credit standing with it. Although he now is deemed an acceptable loan risk by the bank which twice refused him small loans, he prefers not to deal with it. He is very critical of Brighton's commercial banks for what he believes is their apparent discrimination against black people.

Personnel—Bill Lincoln now has 12 employees, including two office supply salesmen, two furniture salesmen, two bookkeeper-clerks, a receptionist-secretary, two truck drivers, a warehouse manager, an office manager, and a sales vice president. Mr. Lincoln works about 78 hours per week and draws a salary of $13,000 per year. The sales vice president, who was hired away from a major competitor, earns $10,000 per year plus commissions. He is also going to receive stock options, yet to be determined. The office manager receives $9,000 annually and the warehouse manager, $7,500.

Mr. Lincoln reports that although the business has experienced some employee turnover problems and has occasional difficulties with absenteeism and tardiness, he doesn't feel they have been excessive. Recruiting good truck drivers has been the biggest problem.

He believes strongly in providing his employees with an opportunity for bettering themselves in position and salary. His few experiences with accepting "hard core" unemployed persons from social improvement organizations have produced bad results. He believes it is asking too much to request small businesses, which are already struggling, to operate as social welfare organiza-

tions. He feels he must make his personnel decisions on the same basis he makes his other business decisions; i.e., "in accordance with what will be most profitable."

All of the employees thus far have been black. But Mr. Lincoln plans to add white salesmen in the future, primarily because he feels they can help with certain potential customers who are still distrustful or suspicious of black businessmen.

Bill Lincoln is quite pleased with his business' progress. Sales for the year ending September 30, 1969, totaled $222,000; the following year, $336,000. Net profits for 1969 were $28,000. For 1970 the business sustained a small loss of $8,000 but he explains that this was due to heavy expenditures related to moving and expanding operations. For 1971 he believes sales may reach $900,000, with profits at their highest level so far.

2. Vacuform Manufacturing Company

John Campbell was born in a small town in Virginia, and he graduated with a bachelor of science degree from a Virginia college. When he decided to go into business for himself he was 36 years of age, married, and the father of two. He was employed as a chemist for a large electrical appliance manufacturer, Electrite, at an annual salary of $16,000. He had worked for Electrite in Sumerton, a northern metropolitan area, for 15 years following his college graduation.

Mr. Campbell had no love for small business ownership. He regarded it as a task involving more work and headaches than the financial reward justified. As a boy in high school he had helped his uncle with a grocery store and a cabaret. This experience—especially the long hours—had soured him on small businesses. He had decided when he completed college that he would take a career job with a medium or large size company. He eventually chose Electrite and never regretted his selection.

Quite happy with his work, Mr. Campbell in 15 years never gave serious consideration to changing jobs or professions. He appreciated the regular, predictable work schedule, and enjoyed the evening and weekend hours he could spend with his family. He also was involved in community activities including being a director of a job training program sponsored by a black social progress group.

Opportunity Knocks

In 1967, a group of Sumerton community and business leaders began discussing means of assisting members of Sumerton's minority community to become more involved in business ownership. This group represented some of Sumerton's largest corporations, including Electrite. The group examined various business opportunities which might prove appropriate for minority ownership. Among the possibilities suggested was a small manufacturing company to specialize in the production of vacuum-formed plastic items.

An economic feasibility study by the civic group determined that, with an enterprising and qualified manager, the proposed business venture could earn a reasonable return. It was concluded that with an initial capitalization of $100,000 the company could purchase the necessary $50,000 worth of equipment, rent space, hire personnel, and have sufficient funds to carry it through the estimated 17-month startup period needed to reach a profitable position. Sales and profits were estimated as follows:

Sales and Profits	1st year	2nd year	3rd year	4th year	5th year
Sales	$12,000	$152,250	$213,000	$235,000	$258,000
Profit Before Taxes (loss)	(37,800)	8,000	41,700	53,000	64,200
Profit After Taxes *	(37,800)	8,000	38,500	32,500	38,200

(* Low taxes in 2nd and 3rd years due to loss carryover from 1st year.)

This estimate was considered reasonable in view of the assurances from local manufacturing companies, particularly Electrite, that they would guarantee such sales during the company's early years. Their demand for numerous small vacuum-

formed parts was growing and they felt it would be possible to assist a new venture without penalizing any current suppliers. In fact, to a large extent the business given to the new company could be taken from operations being performed by the companies themselves. These companies also agreed that during the new company's startup period they would be willing to be more tolerant of production mistakes than they usually would be with their regular suppliers.

The technical skill requirements for manufacturing vacuum-formed thermo-plastic parts were such that the new company's personnel could be trained by Electrite in 6 months. The basic manufacturing operation is fairly simple. It starts with the cutting of a large sheet of plastic to a smaller size, appropriate to the material requirement of the part to be made. The plastic sheet is then placed in a frame and heated in an oven to a point where it is soft and malleable. The plastic is removed from the oven and placed (still in its frame) over a pattern of the object to be made. The frame holding the plastic sheet seals off the area within the pattern, and a vacuum is formed which draws the plastic around the pattern. Once cooled, the plastic part is removed from the pattern, trimmed, and smoothed. The part may then be drilled or cemented, and combined with other components to obtain the desired end product. It was anticipated that the new company would be set up for small orders of up to about 1,000 pieces per job lot. It would work with light to heavy gauges of material and have the capability of making its own patterns and fixtures.

In addition to thoroughly comprehending the technical requirements, the manager would need to be qualified to estimate and bid on potential contracts. This would involve determining the materials, molds and fixtures required, the operations to be performed, and the setup and run times. Utilizing cost accounting procedures the manager would then approximate direct costs and apply appropriate overhead expense rates to arrive at accurate total cost estimations.

Finally, the manager selected would have to be able to deal with other problems typical of a small business—supervising the personnel, delegating jobs to assure an efficient operation, administering the bookkeeping and accounting functions, purchasing materials and equipment, controlling the size and quality of the labor force, selling, maintaining good customer and community relations, purchasing, and so forth.

The Sumerton civic group began its search for a qualified person from the minority community who could meet the above requirements. They hoped to find a man with an undergraduate college degree in mechanical engineering, a master's degree in business administration, and work experience for a plastic manufacturing concern.

Business Formation

John Campbell learned of the proposed business when he saw a newspaper article about the civic group's effort to locate a qualified manager. He decided to look into it further. He approached an acquaintance who was familiar with the group's plans, and learned of the commitment of the large companies, headed by Electrite, to provide both training and assured sales for the new venture. He also examined the feasibility study, and concluded that with the training commitment he could handle the job of managing the business.

Mr. Campbell realized that if he were selected he would be giving up a very comfortable situation for an uncertain one. However, he concluded that this represented an excellent opportunity. What more could one hope for, he asked himself, than to have the city's leading corporations offer to train you, assist you in finding the financing, and then guarantee you a market? True, the commitment was not to support the new venture forever, but it seemed sufficient to allow the business to get firmly established. Added to these considerations was the thought that this venture would place Mr. Campbell in a better position to aid and influence the local social progress movements with which he was concerned. This capability would, he felt, make him more a part of the community and enable him to provide more jobs for unemployed inner-city residents.

A final circumstance which favored a positive decision resulted from the fact that Mr. Campbell found himself on a plateau in his career at Electrite. He had just completed 15 years of service and qualified for retirement benefits which would not have been his had he left earlier. Finally, his supervisor at Electrite advised him that should he attempt the venture and find it unsatisfactory, he would be welcome to return to his old job.

Mr. Campbell made an informal application and the civic group accepted, concluding that he was a good candidate for the position even though his qualifications were not those they had pictured. The Vacuform Manufacturing Company was incorporated in April 1968, with an authorized capital of 5,000 Class A common stock shares and 15,000 Class B common stock shares, each having a par value of $1.00. Voting privileges were restricted to the Class A stock, held solely by Mr. Campbell. The Class B stock was set aside for later sale to employees of the company.

In early May 1968, Vacuform made formal application for financing assistance to the Sumerton Community Development Corporation (SCDC), a nonprofit economic development corporation formed by the civic group to help minority group individuals aspiring to business ownership. In the application Mr. Campbell explained that the minimum loan necessary was $80,000. He requested that amount, proposing repayment over 5 years beginning in April 1970. An additional standby credit of $20,000 was requested as a "safety factor," because his cash flow projections indicated that there could be times when unexpected problems or a slowing of sales might put the company in a difficult position.

With SCDC's assistance, a loan of $75,000 was obtained from Sumerton's First People's Bank, with repayment scheduled at $1,060 per month, including interest of 8 percent, for 8 years. SCDC agreed to loan $20,000 at 6½ percent, with repayment to be made only after the bank loan was fully amortized. The Small Business Administration guaranteed 90 percent of the First People's Bank loan, and in return received assignment of a $75,000 insurance policy on Mr. Campbell's life, a $25,000 guarantee from SCDC, and a lien on all of Vacuform's machinery and equipment. The SCDC loan was unsecured. To these funds Mr. Campbell added $5,000 of his own savings, for a total initial capitalization of $100,000.

With Electrite's assistance, Mr. Campbell leased space in a large industrial building located in a light industrial area of Sumerton's inner city. Machinery and equipment cost $52,000, and Mr. Campbell spent $6,000 on the initial stock of materials. Remodeling expenses totaled about $4,000, and other expenses related to startup came to approximately $3,000. The remaining cash reserve was $35,000.

Mr. Campbell's projections of sales and profits were somewhat more optimistic than those which had been given in the feasibility study. The study had estimated that delivery of the plastic forming machine would require 26 weeks, but Mr. Campbell found he could obtain delivery in 15 weeks. He also concluded that he could reach full production faster and more efficiently than had been projected, with less material waste and more effective use of manpower. Based on these changes, his projections for the first 5 years were as follows:

Projected Sales, Costs, and Profits	1st year	2nd year	3rd year	4th year	5th year
Sales	$39,750	$195,400	$246,240	$312,305	$396,065
Material and Labor Costs	34,354	119,544	148,700	191,140	242,400
Fixed Costs	32,597	50,450	56,756	60,291	67,761
Profit Before Taxes (loss)	(27,201)	25,406	40,784	60,874	85,904
Profit After Taxes (loss)	(27,201)	25,406	27,453	36,414	48,714

For the first full year of operation (2d year), the fixed costs of $50,450, were based on the following: Campbell's salary—$12,000 (maximum allowed by loan agreements); clerk's salary—$6,000; rent—$4,500; utilities—$7,960; insurance—$1,000; small tools and supplies—$5,030; depreciation—$3,196; employee benefits—$5,160; and interest on loans—$5,604. These projected expenses varied only slightly for the following years, with the net increase—due primarily to increases in utilities, employee benefits, and the cost of tools and supplies—offset somewhat by the declining interest expense on the loans.

Business Operation

Mr. Campbell underwent 4 months of technical and administrative training at Electrite. His foreman spent 2 months in training. Thereafter, Vacuform started operations in September 1968. The company had four employees and one customer, Electrite. Soon two other large corporations, encouraged by Electrite and SCDC, became customers.

Actually sales and profits exceeded the aforementioned projections. In the first full year of busi-

ness, Vacuform recorded sales of nearly $200,000 and profit after taxes of $22,000. In the second year these figures reached $260,000 and $35,000, respectively. Nearly all sales went to the three major customers, with Electrite by far the largest buyer. Fixed expenses were essentially as had been projected, but unexpected savings resulted from a program allowing Federal tax savings for businesses which locate in the inner city and hire the "hard core" unemployed.

As business increased, Mr. Campbell took on additional employees, primarily "hard core" unemployed people provided through local assistance organizations. Mr. Campbell reports that in the 2 years he had been in business he had to hire 50 new employees in order to find the 13 who were sufficiently capable and dependable to retain. Nevertheless, he does not regret his decision to hire the "hard core," and notes that it has meant an additional burden in terms of time and money for training and supervision. He further notes these problems have diminished since he adopted a policy of firmness with troublesome employees. As an additional incentive he plans to initiate either an employee profit sharing or stock option plan.

Vacuform now has a skilled and dependable work force, one that can perform the technical job requirements satisfactorily, and also train new employees. The company lacks adequate middle management personnel, however, and as a result Mr. Campbell must spend nearly all of his time supervising the work operations. This hinders any expansion of operations by eliminating the possibility of a second work shift, and by denying Mr. Campbell the time to develop new customers. It also keeps him from participating in outside activities. To his discouragement Mr. Campbell has found it necessary to cut back significantly on the time he formerly gave to his family and to social and community interests.

Other problems connected with the business have been minimal. Bookkeeping and cost accounting are time-consuming, and Mr. Campbell says he detests these tasks; but apparently the system (taught by Electrite) provides him with all necessary information. Inventory management is sometimes troublesome due to a shortage of space which prevents stocking in large quantities.

Plan for the Future

As soon as Mr. Campbell can find relief from his supervisory burden, he intends to devote his time to increasing Vacuform's list of customers and products. The company currently is an Electrite "captive," with 70 percent of its sales still going to that one customer. The bulk of the remainder go to the other two large sponsoring corporations. Mr. Campbell realizes that if Vacuform is to be a truly viable entity, it must broaden its base by finding other customers. He plans to focus his attention on finding new customers in Sumerton, and then to look for others beyond the city's borders. He has specifically ruled out government sponsored procurement programs which give preference to small businesses. He feels such programs enable businesses to obtain contracts "without being competitive," and he says he doesn't want to get any "bad habits." For the longer run he hopes to develop standardized products that can be sold nationwide to a wide range of customers and to escape the market limitations of supplying items that only meet specialized needs.

3. Downtown Beauty Salon

In late 1966, Pat Jamison purchased the large beauty salon business in which she had been working as a supervisor for the past 6 years. At the time she was 41 years old, divorced, and the mother of three. She had worked as a hairdresser in various beauty shops since graduating from high school.

Mrs. Jamison considered the purchase for about a year before completing it. Her employer wanted to sell, and he encouraged her to buy. She knew the business was doing well, and believed that the owner wanted out because of his advancing age and the fact that his wife had recently been robbed when taking home the day's receipts. How-

ever, she did not believe anyone would lend her the money required to make the purchase. Finally she decided to try to accomplish the purchase.

Mrs. Jamison went to a local organization that had been set up to assist people from the minority community get into business. They advised her that she would probably have no trouble qualifying for a loan from the Small Business Administration (SBA). Thus encouraged, she decided to apply for a loan. She advises that she decided to go ahead primarily because she felt it would enable her to better provide for her children's education. She had been working 7 hours per day (7 a.m. to 9 a.m., and 7 p.m. to 12 p.m.) at the salon, another 8 (10 a.m. to 6 p.m.) at a credit union, and still found her income unsatisfactory. To insure sufficient income for her family, Mrs. Jamison intended to continue her work at the credit union. She had considerable experience in supervising the salon, and felt that the additional tasks involved in managing it would not be too burdensome.

Financing the Venture

After receiving rejections on her loan applications from two commercial banks, Mrs. Jamison applied directly to the Small Business Administration. The SBA approved a loan of $12,500 to be repaid over a 10-year period, with interest at 5 percent. As security the SBA accepted her personal guarantee, plus a mortgage on the salon's equipment. She added $2,500 of her own savings to the SBA loan, for a total initial capitalization of $15,000.

Of this total, $8,000 went to Mrs. Jamison's previous employer for the equipment, furnishings, and good will of the business. After investing $1,500 in additional equipment, she had $5,500 in cash with which to start.

Mrs. Jamison renewed the lease on the building space for 5 years at a rate of $426 per month. Other major monthly cash outlays included utility payments of about $150 and the loan payment of $133. In addition the salon paid its hairdressers by the hour, with the minimum set at $1.40 per hour.

Business Operation

The beauty salon was one of the largest in Bellvue, an Eastern city with a population of about 1½ million. It employed 26 black hairdressers who operated 14 booths. The salon was open 6 days a week from 7 a.m. to midnight and specialized in good, quick service at a price lower than other local beauty shops. The customers were nearly all working black women, who came from throughout the city and suburbs to the Downtown Beauty Salon which was open when they needed it, provided quick and courteous service, and offered the lowest prices in town.

Shortly after opening, Mrs. Jamison decided to improve her business and broaden its operations. During the winter of 1966–67 she invested the remaining cash from her initial capitalization in a new floor. She says that although the new floor wasn't really necessary, she wanted to improve the salon's appearance. She also added an inventory of women's cosmetic items for retail sale in the store and started a wig salon on the same premises. These improvements were costly, and Mrs. Jamison voluntarily abstained from drawing a salary, choosing instead to live off her savings. She attempted to maintain her job at the credit union for a few weeks, but found that managing the beauty salon was too demanding. Thus for the first 10 months of the business venture she drew essentially no salary, and after that took only $100 per month.

During the first 18 months the business performed satisfactorily, and Mrs. Jamison estimates that weekly sales were better than $2,000. Profits were small, but adequate to continue the business on about the same basis as before her takeover. However, she was experiencing managerial difficulties, and they became more significant and more obvious after business started declining in early 1968.

In April 1968, Bellvue experienced a serious riot following the assassination of Dr. Martin Luther King, Jr. Several blocks of stores within predominantly black sections of the city were looted and vandalized, and many shops were burned. Mrs. Jamison's beauty salon was on the border of the riot area and was unscarred, but the business in large part had thrived on the patronage of women who traveled to the salon by bus or taxi. After the riot these women were afraid to go into the area, especially at night. Mrs. Jamison attempted to deal with the situation by purchasing a station wagon to provide door-to-door

transportation. This proved impractical. Sales fell drastically, reaching only $44,000 during 1968 or less than half the previous year's total. The salon still managed to show a small profit and Mrs. Jamison tried to hang on, hoping things would improve. They didn't.

From the very start of her business venture, Mrs. Jamison had serious problems with her bookkeeping and cash management. These problems first became apparent after she had spent her cash reserve on store improvements. Revenues were frequently inadequate to cover expenses. After the riot, when sales dropped to about one-half their earlier level, the problem became serious. She started covering the monthly cash shortage from her personal savings, a practice she continued until a few months before closing, when all of her approximate $10,000 in savings was exhausted.

Since Mrs. Jamison had not kept the books for her previous employer, she knew nothing of the procedures one followed in managing the business' cash flow or how to interpret financial statements on the business' operation. She decided to hire an accountant to pay the bills, prepare the payroll, provide for any tax liabilities, interpret her financial situation and responsibilities, advise her on financial management, and the like. In other words, she chose to put complete faith in an outsider to keep her finances in order. Looking back on that decision, she now realizes it was a mistake.

As her first accountant and adviser, Mrs. Jamison hired the same person who had been employed by the former owner. He was paid $50 per month to start, but this was increased to $85 and $100 after Mrs. Jamison requested that he take on responsibilities additional to those he previously performed. The accountant proved unqualified to direct Mrs. Jamison's financial dealings, and after 1 year she asked a business services firm to provide her with an appropriate bookkeeping system. The instruction was apparently of limited value, however, and she soon sought assistance from a third source—a neighborhood accountant who agreed to take over all of the salon's bookkeeping, including the weekly payroll and daily posting. Although she paid him $60 per week for his services, she eventually discovered that she was getting very little for her money. The salon's books were in a continual mess, and the tax authorities were sometimes forced to take action to collect unpaid income taxes. On one occasion the salon paid $400 in tax penalty fees. It wasn't until the fall of 1969 that she finally found an accounting firm which, for $100 a month, was able to straighten out the bookkeeping mess. By this time, however, the business was on its deathbed.

Mrs. Jamison also had significant personnel problems, including high employee turnover, absenteeism, and tardiness. She had a difficult time finding and keeping qualified hairdressers. On a few occasions she utilized the services of local agencies trying to place the so-called "hard core" unemployed, but she found that the people referred generally had poor work habits. She tried to lessen her problems with absenteeism and tardiness by building employee commitment with a profit sharing plan, but there weren't enough profits to enable the plan to work. After the riot the personnel problems got worse, as many of the employees shared their customers' fear of the area and occasionally refused to come to work. At this time she began to lose some of her better operators. To make matters worse, when a hairdresser left to work for someone else, or to start her own small beauty shop, she usually took some of the regular customers with her.

Finally, Mrs. Jamison had difficulty with crime and insurance. After the riot all of the salon's insurance was canceled, and the business remained uninsured until a newly formed city placement facility was able to help obtain a new policy, although at increased rates. The new policy did not cover robbery or the theft of certain items, however, and the business lost heavily from its wig and other merchandise inventory during six break-ins.

In the first 10 months of 1969 the salon managed to record sales of only $45,000, against which it had expenses of nearly $51,000. The business, already behind in its rent and Federal tax payments, started missing its loan payments. Mrs. Jamison met with the SBA to discuss her problems, but the meetings produced no solutions. Eventually the SBA foreclosed and took possession of the salon's equipment.

4. Business Protection Corporation

In the summer of 1966, Howard Coleman, age 27, began a new job as a research laboratory assistant at a major university in the Southern town of Sutter. He had left a similar job in Philadelphia with the U.S. Public Health Service for what he considered to be the better position at the university. His dissatisfaction with the new job was almost immediate. He was disgusted with the prospect of working for someone else and with the career limitations that seemed to be placed upon him because of his race. His formal education was limited to 2 years at a junior college plus 2 years in a medical technician's course. Unless he were to pursue a professional degree leading to independence, owning a business seemed to offer the only means of achieving personal satisfaction and a comfortable living. He believed that career opportunities for the black man were limited unless he could be his own boss.

His education and employment experience led Mr. Coleman to consider briefly the establishment of a laboratory technician's school. He rejected that type of venture because of the large investment required.

Mr. Coleman was also interested in law enforcement and detective work. While in school in Philadelphia he had been a reserve policeman. Shortly after arriving in Sutter, Mr. Coleman had been asked to help establish a local office for a national detective agency. However, the agency abandoned the venture before it was in full operation. After the detective agency folded, Mr. Coleman decided to attempt a related business on his own, one that would draw upon his experience and interest in police and investigative work. He settled upon the concept of a business security and protection service.

An independent security organization was a new idea in Sutter. At that time, the security needs of the Sutter businesses were being met either by permanent employees of the firms requiring protection, or by hiring local residents for individual events. Mr. Coleman realized that he would have to create a demand for this new service in addition to overcoming problems arising from discrimination against black business.

Mr. Coleman asked the advice of several people in the black and white communities. All save one were discouraging. The reaction from local law enforcement agencies was also negative. Only the head of the local black business school encouraged Mr. Coleman to go ahead despite the negative reaction in the community. Against this background of little encouragement and no outside financing, Howard Coleman decided to establish the Business Protection Corporation.

The new company was to provide business firms with guards, watchmen, and security equipment, such as closed circuit TV. Investigative services, upon request, would also be a part of the operation. All services were to be sold through personal contact. Mr. Coleman intended to solicit business from companies which required security services at their warehouses, construction sites, and office buildings. He knew that the vast majority of the prospective purchasers of his service would be white, as there were few black-owned companies in Sutter. To survive and build a substantial business, Mr. Coleman would have to convince white businesses of the credibility of his organization.

In March 1967, 9 months after arriving in Sutter, Mr. Coleman quit his job at the university and opened Business Protection Corporation. At the time he had $1,800 in savings, which he was willing to put into the business. Since his wife was employed, he knew that he could rely on her salary to help cover household expenses for the family of three. Although he had no assurances of business at the time of opening, he was confident that during the first year he would generate up to $30,000 in sales and be able to draw a salary of $5,000 to $6,000. He did not know the meaning of profit in the business sense and therefore anticipated none. He believed that in time his business would expand throughout the State, and that eventually he would establish franchised operations in other parts of the country.

A Modest Beginning

Mr. Coleman moved into the downtown office of a justice of the peace, renting desk space and use

of a telephone for $12.50 a month. He felt that he needed a downtown location in order to give the business an image of respectability, and, although modest, the JP's office satisfied that condition. Mr. Coleman was Business Protection's sole employee, but he did arrange to borrow the services of the JP's secretary at a cost to Business Protection of 25 cents per letter. Within 30 days the company had obtained its first contract with a downtown motor hotel. Mr. Coleman bought a security guard's uniform.

Mr. Coleman received enough business within the first 6 months through his personal contacts and aggressive selling that he considered it necessary to find office space of his own. Accordingly, in September 1967, Business Protection relocated on the second floor of a two-story brick building in a lower income residential and commercial area.

The area's population and trade were predominantly black. Mr. Coleman did not consider the possible effects that his new location would have on his business, but rather bowed to pressure within the black community to locate in a black neighborhood. After being there a short time he decided that the location was not suitable for the development of trade within the white business community, and he began searching for a location that would invite business.

One of the criteria for a new location was that it be accessible from the downtown and commercial areas, although not necessarily in the center city. Secondly, Mr. Coleman wanted to be in an area that was not deteriorating and where substantial and reliable businesses were in operation. Having made a mistake in relocating the first time, he was more aware of the realities facing his business concern and accordingly examined the effect that suggested locations might have on business.

In his search Mr. Coleman found office space at a large shopping center at the city limits, about 4 miles from downtown Sutter. Mr. Coleman concluded that the location met his needs and those of his clientele. After checking with city authorities concerning plans for the area, he moved in during April 1968. Although he had initiated operations in an office which cost him only $12.50 a month, Mr. Coleman now felt that he had developed his business to the point where he could justify paying monthly rent of $350. The new location on a breezeway at the shopping center consisted of a reception room, a classroom, storage area, and a large office.

Throughout the first year, Mr. Coleman hired no permanent employees but rather operated with part-time help, hired as needed. Sales during the first year reached $25,000, only $5,000 short of his "guess" of $30,000. The company, however, was not operating at a profit.

During the second year, Business Protection continued expanding, and sales were double those of the first year. However, there was still no profit.

New Capital

In 1969, Mr. Coleman learned of the financing assistance programs of the Small Business Administration through a local organization established to assist minority business ventures. Realizing that the lack of working capital limited possibilities for expansion, Mr. Coleman, with the aid of the assistance organization, applied to a local black bank for an SBA guaranteed loan. In November of that year, Business Protection Corporation received a $14,000 loan from the bank. It carried an interest rate of 6 percent and was to be repaid over a 10-year period. The SBA gave a 90 percent repayment guarantee.

The loan permitted the firm to increase its operations, and sales for the first 8 months of 1970 reached over $50,000. Mr. Coleman anticipates $80,000 for the full year. He also projects that the company will show a profit for the first time. He recently increased his own salary to $1,000 per month.

Business Operations

There are currently 38 employees at Business Protection, 10 of whom are full time and permanent. The bulk of the uniformed security force works on a part-time or hourly basis as its services are required. All uniformed employees are given 3 hours of classroom instruction per week for the first 4 months. In a course developed by Mr. Coleman, they are taught public relations, laws of arrest, first aid, firefighting, and weapons use. Further instruction is achieved through the periodic showing of police training films.

In January 1970, Mr. Coleman hired a white individual to be chief of his security force. The chief supervises the men, conducts training, and

does some client contact and public relations work. The third in command is a lieutenant, also white, who has been with Business Protection since early 1969. The lieutenant is responsible for on-the-job training, installation of security surveillance equipment, and the drafting of work schedules. Except for a secretary, the remaining employees are security guards.

Mr. Coleman believes that having a fully integrated staff is a business necessity. Some clients have requested that the jobs be carried out only by white guards and have conditioned their business on that arrangement. Mr. Coleman tells the story of one prejudiced but profitable customer who requested that a white guard be put on a particular job. Not having one available on that occasion, Mr. Coleman sent "a light-skinned Negro." The customer was very satisfied with the work done and asked that this particular guard be sent for all future work. After several months under that arrangement, the customer happened to meet his "white" security guard on the street. The guard was with his family, and his wife was much darker. The customer called Mr. Coleman the next day to request that a new guard be found.

The business has also been the subject of racial discrimination from certain prospective clients, who have negotiated only up to the point that they found out that the business was black owned. However, despite incidents such as these, Mr. Coleman believes that he has been able to enhance the reliability of black business in the protection services field.

Mr. Coleman feels that his business has been subjected to discrimination due to its smallness. On a few occasions he has been thwarted from receiving large contracts with the U.S. Government because of the inability of Business Protection to obtain bids and performance bonds. The bonding companies have refused him because of the small size of the operation, and because the financial position of Business Protection was not sufficiently strong. Since the contracts in question would have provided Mr. Coleman with sales that immediately would have made Business Protection a profitable venture, he contacted bonding companies throughout the United States and in Canada and England. His efforts were unsuccessful.

Insurance and personal bonding requirements for security guards have not caused equal difficulty, although the cost—$5,500 per year—constitutes a significant fixed expense for Business Protection. Mr. Coleman feels that he has adequate coverage, which provides for bonding on all employees, liability and false arrest protection, fire and theft, and auto insurance on the two company cars. The only deficiency is the result of his own inability to obtain "key man" insurance due to his personal health problems.

Mr. Coleman says that it has been extremely difficult to find qualified employees. Given the price he can charge his clients for security services, he can afford to pay his employees only $1.75 per hour. The employee must have a high school education and be without a police record.

To deal with the recordkeeping, accounting, and billing functions, Business Protection has contracted with a business services company that provides accounting and tax services, and does all of the billing and paying. The cost of the service is $106 per month. Mr. Coleman feels that at this point in his development, it constitutes a real benefit in that it relieves him of work in an area in which he does not feel competent, and it frees him to develop new business.

Mr. Coleman considers that the lack of sufficient working capital is his major weakness, and he intends to attack this through both cost reduction and sales improvement. He has encountered difficulty keeping current with the U.S. Internal Revenue Service in the forwarding of taxes withheld from payroll. He is currently two quarters in arrears, and considers this critical. He hopes soon to find a business manager who can help reduce costs and give proper direction to the operation.

Mr. Coleman is optimistic about the future. He feels that he has proved to the community that he offers high-quality service. He believes he is at the point now where acceptance from the balance of the business community will come quickly. Sales should then increase accordingly.

Mr. Coleman is far from satisfying his original goals, but he now has knowledge of business operations and understands the practicalities of the market place. He says that he wishes he could have had training in business administration at the college level before starting his venture. Although he has had to learn the hard way, it appears that he has learned well.

5. Butler Studio of Photography

Jerome Butler recalls that it was as a high school student that he first concluded there were no significant opportunities for black people in the job market. As he grew older his commitment to this idea grew stronger. Facing the job market with only a high school diploma, he felt certain he would never move any further up the job ladder than semiskilled employment, and thus his earning potential was low. Determined to avoid this barrier, he concluded that one day he would start his own business.

In 1963 he left his hometown of Marshall and headed for Hartford, where he found employment with a local university's school of medicine as a lab assistant and animal caretaker. He detested this job.

During this period Mr. Butler became intensely interested in photography. He completed a 1-year night school course in photography at a local institute and considered the possibility of starting his own studio.

Aware of his lack of knowledge about managing a studio, Mr. Butler decided it advisable to take a training offer of a white acquaintance, Ben Feldman, who was the successful owner/manager of a studio in Hartford. Mr. Feldman volunteered to hire him as an apprentice, and teach him both the technical and administrative aspects of the business. Mr. Butler felt he was on his way.

A Setback and a New Start

The training period started well enough, as Mr. Feldman did his best to acquaint his apprentice with the realities of operating a studio. Jerome assisted with the picture-taking, developing, and enlarging, and closely observed his employer's handling of customers. Their relationship was a good one—Butler was an eager student, and Feldman a willing teacher.

The training period proved short-lived. Within a matter of weeks, employer and apprentice were reminded of the realities of racial discrimination. The studio's business started falling off—"That black man isn't taking pictures at my daughter's wedding!" The apprenticeship training unfortunately ended prematurely.

Although discouraged by this setback, Mr. Butler realized it need not mean the end of his photography career. Concluding that there was a lesson to be learned from his experience, he decided to seek a location where a black photographer would be more welcome.

After 4 months of looking, Mr. Butler accepted a position with a black-owned studio in his hometown of Marshall (population approximately 250,000). The studio drew its customers from the local black population, and especially from predominantly black high schools and colleges. His new job was primarily that of a photographer who went to the schools taking graduation and yearbook portraits. He also photographed a few weddings. Other aspects of the business, such as photo processing, sales development, and general administration, were left to others.

Decision To Enter Business

Jerome Butler had graduated from the photography class at the institute in Hartford with a strong feeling that photography was something of an art form. He felt the photographer should be able to express himself by varying the techniques, experimenting, and striving to capture a new perspective and effect which would identify his particular product as something unique and superior. Further, during his brief apprenticeship under Mr. Feldman, he had been exposed to the world of business administration and individual initiative and responsibility, and he had found it much to his liking. Unfortunately, however, his new job did not provide him the opportunity to put into effect the techniques of photography that he had learned at the institute, nor to make any of the business decisions he had seen Mr. Feldman make. Instead he spent nearly all of his working time simply snapping portrait shots on a camera which he wasn't free to manipulate—"even the F-stop was taped secure!"

Mr. Butler had another concern at the time: His wife was expecting their first child. This caused him to decide that it was time to start his own studio.

Mr. Butler believed that opening a photographic

studio with satisfactory furnishings and equipment would require about $10,000. He had no cash of his own, but had photographic equipment valued at about $4,500. Thus he needed about $5,500 for additional equipment and furnishings.

Because his personal financial dealings up to this time had been rather simple and limited in scope, Mr. Butler was not aware of the type of information he should have available when approaching a financial institution with a loan request. Neither was he knowledgeable as to the sort of considerations a lending institution would have in assessing whether his business proposition was bankable. He was either unacquainted with anyone in Marshall who was willing to assist him with advice on this subject or he chose not to seek help. He was unaware that there were organizations which had been set up to provide the sort of assistance he needed.

Unprepared though he was, Jerome Butler approached a local black-owned bank and requested a $5,500 loan to finance his intended business venture. The meeting was short and its message clear. If Mr. Butler wanted a loan he would have to provide either satisfactory collateral or a suitable cosigner to endorse his note. Neither alternative seemed within the realm of possibility. Concluding that this was likely to be the answer he would receive everywhere, he decided it was impossible to obtain a bank loan.

Discouraged, he turned to perso... friends and relatives to seek financing. No luck.

As a last resort he returned to Hartford to a bank where he had earlier established an acceptable credit rating by satisfactorily repaying a small personal loan. The bank approved a signature loan of $500 repayable in 12 monthly installments.

Business Startup and Expectations

In April 1968, Jerome Butler, age 24, opened his studio in two rooms over a fried-chicken carryout. The building was in a predominantly black neighborhood in Marshall. Mr. Butler had learned of the availability of the space while eating lunch in the carryout. Nearby was a second food carryout, two barbershops, a launderette, a small business school, and a large grocery store. The rent for the two-room studio was $45 per month, a modest amount for modest accommodations.

Mr. Butler knew he was starting his business on a shoestring. He spent the $500 borrowed from the Hartford bank on essential equipment and supplies. This left nothing for furniture and fixtures, and nothing for a reserve to carry the business until it could develop to the point where its income could provide for the studio's needs.

With his further cash requirements great and with no savings of his own, Mr. Butler felt he shouldn't risk trying to live off his studio income alone. Although displeased with his current job, he decided to continue working there on a full-time basis. He planned to work evenings and weekends in his own studio, until he could afford to give it all of his time.

Mr. Butler expected only a modest return during his first year in business. He anticipated sales of about $6,000, and profits to himself, including salary, of about $1,500 to $2,000. However, with time he felt word of his good work and personalized style would spread, and business would grow. He believed it would take about 3 years to build up his business sufficiently to permit him to quit his regular job. Then he planned to build his own studio, hire a small staff, and perhaps expand into advertising. In the meantime he expected to work at his studio about 40 hours per week, primarily photographing weddings in the black community.

The Business Fails

Mr. Butler advertised his opening with spot commercials on a popular radio station, with newspaper ads directed at the black community, and with advertising "flyers" in the predominantly black commercial and residential areas. He had wanted to advertise to a much greater extent, but did not have sufficient funds.

As expected, his customers came almost entirely from the black community. He photographed weddings and individual portraits. Although he approached beauty and barber shops with the proposition of doing advertising calendars for them, no such business materialized. He considered competing with his employer for high school and college portrait business, but did not make the attempt.

To finance his initial advertising campaign he had had to drain off money from his regular full-time job—money which normally would have gone for household expenses. Since he was never

again able to afford advertising, his business henceforth came solely from referrals and listing in the local telephone directory. The telephone book listing provided only a limited draw, however, and there were aspects of his business that tended to restrict his capitalizing to any great extent on referrals.

Although Mr. Butler was successful in establishing a good rapport with his subjects during the photographic sessions, and although his photos were of high quality, the customers were still discouraged with certain other aspects of their relationship with him. They apparently were very upset by his slowness to deliver the pictures ordered. They were also unimpressed with the sparse and drab furnishings of the studio, and its unfavorable location directly above the chicken carryout. Apparently the cooking odors from downstairs frequently permeated the studio. He tells of one woman who, while posing in her wedding dress, sniffed the air disapprovingly and huffed: "Well, I certainly know what I'll smell like on my wedding day!"

Mr. Butler's location and spartan furnishings upset him terribly, and he desperately wished that he could afford to move. In addition to its other shortcomings, his second floor location precluded an attractive display window which could have increased his business.

Mr. Butler's lack of pride in his studio contributed to its eventual failure. Looking back on his business venture, he recalls the story of the wedding dress and the smell of fried chicken with obvious embarrassment and admits that this incident and others caused him to hesitate in actively seeking new customers, especially those who had wealth or social position. He also admits that the customers' complaints about his slowness were probably well taken, as he feels he did not give the business the full-time attention it needed. Although he frequently put in 30 to 35 hours per week at the studio, he said that this time was often spent unproductively. He had a tendency to tinker with things of personal interest rather than stick to his studio work.

Another aspect of his approach to business which he now realizes hurt him significantly was his attempt to proceed without knowing the financial considerations of operating a studio. He tried to use pricing guidelines provided in a nationally distributed photographer's magazine, but he was losing money on some of the work for which he was commissioned. He found out too late that it is standard practice in the business to print and deliver pictures, especially wedding pictures, only after being fully paid. He had several bad experiences in which he either processed pictures which were never picked up or, if picked up, were never paid for. Finally, he had no bookkeeping system which would have allowed him to keep better track of his expenses and billings.

In addition to all of his other difficulties, Mr. Butler found that his work was causing friction at home. Working 70 to 75 hours per week at two jobs left little time to spend with his family. The strains caused by these problems upset him, and put him in a poor frame of mind to deal with his business problems. Similarly, the business problems put him in a poor frame of mind to deal with his problems at home.

In May 1969, Jerome Butler gave up his business venture when he found that he simply couldn't pay his bills. For the 11 months that he operated the studio, he estimates that he did approximately $4,000 in photographic business for which he received payment for only $2,800.

Although out of business now, Mr. Butler is reasonably happy with a new job as a photographer for a local college. He hasn't finished paying the debts left over from his unsuccessful venture, which aren't particularly large since he had not borrowed a substantial amount. He hopes that one day he will again be able to go into business, and he feels confident that he will then benefit from past mistakes.

6. Sound Souvenirs, Incorporated

In 1966 at the age of 28, and after 10 years as an Army electronics technician and instructor, Paul Hazard returned to civilian life. His first civilian job was as an engineer's aide in the laboratory of a large national corporation in Stockdale, an industrial city of 500,000 located in the Northeast. Two years later, Mr. Hazard founded Sound Souvenirs, Incorporated, a specialty record company which he hoped would eventually become a base for moving into the commercial recording business. He began work on the first souvenir record in August 1968. Less than 2 years later Paul Hazard was out of business and faced with personal bankruptcy.

Birth of an Idea

After finishing high school, Mr. Hazard joined the Army where he was assigned to an electronics school. After 5 years as a technician he was classified as an electronics instructor and assigned to the Army's Fort Paix in Louisiana. His experience at this training post impressed him with the trainees' need for a means whereby they could communicate their school experiences to family and friends. This idea later became the basis for Mr. Hazard's unsuccessful venture.

During his military service, Mr. Hazard had decided that there were better opportunities outside of the Army. Because he did not have a university degree (although he had managed to take several college-level courses while in the Army), Mr. Hazard believed self-employment to be the most promising and profitable path to pursue. He considered that he was "as smart as the next guy" and accordingly decided to "seek his fortune" in the business world.

During the 2 years with the large corporation, his desire to find a suitable business opportunity increased. In early 1968, he believed he was ready to start moving in the direction of establishing his own business.

Mr. Hazard had a long-standing interest in commercial recording and music publishing. Inspired by the growth of national record companies which had started as small ventures, he decided to combine his interest in the field, his knowledge of electronics, and his understanding of the needs of servicemen in special training, for the purpose of establishing a profitable business. His decision to enter business was essentially a personal one. None of his family had been involved in the management of a business except his brother who was an architect engaged in contract construction. He did not seek advice from others as to the opportunities or problems of business in general or in the line that he had selected. He relied wholly upon what he believed to be a good idea.

The Idea

His initial plan was to produce souvenir records of the typical sounds of Army training installations and sell them to the trainees. The records would include music by the post band, a speech by the commanding officer, and random sounds that were descriptive of the post's activities. In addition to the records, he would produce a book of photographs showing life on the post. Later he intended to produce similar items for the other branches of the service. He envisioned that after the military market was established, his company would expand and provide souvenir records for high school students, and then for family and other social gatherings. He further contemplated that when the specialty record business was firmly underway, the scope of the operation would be expanded to include the production of commercial recordings of known and developing artists. His long-range goal was to develop a publicly held corporation with nationwide franchises.

Mr. Hazard had no contracts or assurances of sales, but was confident that there would be a ready market for the souvenir record. After all, he was familiar with the trainees and their tastes. The sale of the souvenir record and photograph album was to be made directly to the post exchanges (PX's) on training installations. The PX's would in turn sell the records at retail to the servicemen on the post. Sound Souvenirs would buy back any records not sold within a "reasonable time." Although Mr. Hazard was to sell in bulk to the PX's, advertising necessary to reach the individual trainee would be the responsibility of Sound

Souvenirs. Mr. Hazard planned to advertise through the radio and newspaper media.

In February 1968, Mr. Hazard began the process of obtaining approval from the Army to visit five training posts for the purpose of recording the sounds that would be used in production of the souvenir records. To that end, he secured the help of a retired colonel who, in the spring of 1968, made the necessary contacts for authorizing the recording schedule and approving the record prior to release for sale.

A Quick Search for Funds

Mr. Hazard continued in his position as an engineer's aide until midsummer 1968, when the necessary approvals actually came through. The Army approved a schedule for the five installations, with the initial recording to begin in August. At this point, however, Mr. Hazard had only tentatively attempted to obtain the required initial financing. He had approached a local nonprofit community development corporation, the Stockdale Business Development Corporation (SBDC), engaged in promoting minority-owned businesses. Although SBDC was interested in his proposed venture, it was not able to provide him with immediate help in securing the financing. With time pressing him, Mr. Hazard knew that he had to act fast to meet the Army's approved schedule.

Paul Hazard was convinced that the idea was so attractive that it would be relatively easy to convince other people or institutions of the desirability of investing. Although several private investors were approached, they declined to provide funds until the business proved its viability. Mr. Hazard had $1,500 in savings and had been promised $5,000 by a friend, an attorney, who in turn was to receive an interest in the business. Mr. Hazard wasn't sure of the total amount needed, but knew it was undoubtedly much more than the $6,500 he had raised. He decided to go directly to a local bank with his proposal.

Mr. Hazard had made no projections of the capital requirements of, nor the probable income from, the venture. His financial data consisted only of a rough sales estimate of $310,000 for the first year. Nevertheless, the bank liked the proposal. It had recently initiated a policy of cooperating with SBDC to help establish new minority-owned businesses. The bank had been advised by SBDC that it intended to assist Mr. Hazard as soon as its work load permitted. Proceeding on its own and prior to any formal action by SBDC, the bank agreed to support the venture.

Apparently uncertain of the best way to proceed with their new policy of making "higher risk" loans, the bank decided to advance the funds to Mr. Hazard on a piecemeal basis up to the amount needed to adequately equip the venture. Each loan so granted would be in the form of a demand note specifying no repayment schedule, and would be unsecured except for Mr. Hazard's signature and a lien on whatever equipment it financed. Once the venture was fully equipped, the bank planned to bring all the demand loans together into one long-term loan, with specifics to be determined at that time. Also, the bank planned that the final financing package would include SBDC participation and be guaranteed in part by the Small Business Administration. To start, the bank loaned Mr. Hazard $23,500 on a demand note.

Mr. Hazard purchased a camping van from a manufacturer in another State. At his request the van was converted by the manufacturer into a mobile recording studio that could also serve as living quarters for the crew while on location. Mr. Hazard paid $5,000 in cash for the recording equipment, and $5,000 as a down payment on the van. The $20,000 balance owed on the van was financed over 5 years through a bank located near the manufacturer.

Beginning Operations

Sound Souvenirs was incorporated in August 1968, and in the same month Mr. Hazard, and three technicians that he had quickly hired, traveled a thousand miles to the first three Army posts. They spent the next 6 weeks recording, photographing, and making preliminary arrangements for the distribution and sale of the record through the post exchanges. The remaining two posts on the original schedule were dropped in order to proceed immediately with the recordings already in hand.

Upon his return to Stockdale, Mr. Hazard began to prepare master tapes for the production of the three records. Most of the work was done in the van which was parked next to Mr. Hazard's residence. Now, enthusiastically engaged in production of the album, Mr. Hazard decided to limit

Sound Souvenirs to the production and sale of the records. He doubted that the book and photographic souvenirs could sell at the price he would be required to charge. During the fall of 1968, Mr. Hazard returned to the local bank which had arranged the initial financing and increased his borrowings from that institution to a total of $40,000, all still on demand notes.

Expanding the Operation

In December 1968, Mr. Hazard moved his business into office space in the inner city. With the financial assistance of the bank readily available, he became eager to jump into the commercial recording business on a large scale, and early in 1969 he decided to add further equipment and transform his physical plant into a complete recording studio. To help with the expanding operations, Mr. Hazard hired his brother Ralph (an architect) as executive vice-president in charge of administration, with special responsibilities for the technical portion of the new studio construction. Convincing the bank that the expansion and the immediate entry into commercial recording was a good investment, he was able to further increase his borrowings by $50,000, to a total of $90,000.

The records for the first Army installation were finally ready and put on the market in July 1969. The actual pressing of the records was done by a firm in New York at 82 cents a copy. The wholesale price of the record was $3.50, and the PX's were to sell the records at retail for $3.95 each. The record came in an attractive jacket which included photographs of the base and was entitled "The Sounds of Fort Paix." Mr. Hazard journeyed to the base and was able to make small initial sales to all of the exchanges. At the same time Mr. Hazard arranged for extensive radio and newspaper advertising consisting of regular full-page ads and a few double-page ads in the post's newspaper. He estimated that with Fort Paix experiencing a complete turnover of trainees three times a year, sales would total about 2,000 albums per month.

Sales were very slow throughout the fall of 1969, and in an attempt to increase them Mr. Hazard began to sell record mailers along with the albums. He noted a slight increase in sales. Nevertheless, actual sales to the PX's for the 6 months from July to December 1969, totaled only 1,000 albums. Mr. Hazard assumes that all the 1,000 records sold to the PX's were in turn sold at retail. He believes that one of the factors contributing to low sales was that the PX's may not have been giving proper attention to the merchandising of his records. However, his operation in Stockdale was considerably removed from the retail point in Louisiana, and he was unable to assure himself that his products were prominently displayed.

The records for the two remaining bases included in the initial recording tour were never pressed, as sales at the first base had not reached a satisfactory level.

More Expansion

From July to December 1969, an additional $83,000 was obtained from the bank. Of that amount, $24,000 was secured by guarantees provided by SBDG. All loans continued to be in the form of demand notes and bore interest ranging from 7½ percent to 8½ percent. The demand notes outstanding to Sound Souvenirs now totaled $173,000. The final financing package was still incomplete, and the SBA had not become a party. It appears that loans in the last half of 1969 were made without the bank being aware of the status of sales at Fort Paix, where the only record was being marketed.

Mr. Hazard continued to place more and more emphasis on the commercial recording services that Sound Souvenirs was to offer. Locating sufficient and qualified technical personnel to work in the studio was not an easy task. He attempted to fill certain positions with black personnel but found none with the required training, and therefore was forced to employ white technicians in those positions. The problem was further complicated because Mr. Hazard felt his business could not afford to pay wages high enough to attract experienced personnel. He found that he had to accept people without experience, and consequently he spent a considerable amount of time training new employees.

Mr. Hazard attempted, without success, to obtain contracts for the production of advertising recordings. He considered trying to attract popular singing artists to record at his studio, but had no idea of the manner in which to proceed. In January

1970 he hired a black consultant with experience in the recording industry to provide advice and direction. The consultant's principal concerns were to be the organization of the studio and its activities, as well as the development of contracts with recording artists.

In February 1970 the bank advanced what was to be its final loan, $10,000, guaranteed by SBDC. It now had a total of $183,000 in loans outstanding to Sound Souvenirs and concluded it was time to review the situation.

By questioning Mr. Hazard, the bank found that since startup the company had achieved total sales of only $4,300, and that the recording studio had accounted for only $800 in revenue. The net loss through February was $151,000.

After discussing the situation at length with Mr. Hazard and with the consultant, the bank concluded that the venture had little hope of reaching a profitable position with Mr. Hazard in charge. It also concluded that Ralph Hazard, upon whom Paul Hazard relied heavily for advice, had been a detriment to the business. The bank advised Mr. Hazard that in order to retain its continued financing support he would need to step down to vice president, take on the consultant as president, and dismiss his brother. There followed a hectic period of a few weeks in which the parties debated the issues which had precipitated the bank's action. Meanwhile, the business sat idle and the bills fell into arrears as the bank was no longer providing financing. In March the van was repossessed.

In May, with Mr. Hazard refusing to accept its conditions, the bank foreclosed. The loans, having been made on a demand basis, were in default once the bank called for repayment. The bank achieved possession of the equipment and arrived at an agreement with the consultant wherein it supported him in a new commercial recording venture with the equipment from Sound Souvenirs.

As Mr. Hazard now looks back on his unsuccessful venture, he sees two major factors which he believes contributed significantly to Sound Souvenirs' failure. First, he points to the unusual relationship between himself and the bank. He realizes that their failure to communicate better had detrimental effects on the business. In particular, he notes that he was under the impression that he was operating essentially with an open line of credit. Until the time that it delivered its ultimatum, the bank had not indicated what limit there was to its financial assistance. He feels that had he been better aware of the bank's concerns at an earlier date, he might have been able to take action to avoid the eventual foreclosure. He regrets now that in his dealings with the bank, he was not more cooperative and forthright.

Second, Mr. Hazard says that he now recognizes that he was not sufficiently "business minded." He feels that he made too many expenditures which proved unnecessary. Furthermore, he feels that he completely misjudged the profit potential of the specialty record business, and that once he started the commercial recording studio, he was not able to manage it satisfactorily. However, after concluding that he needed managerial assistance, he was unable to get detailed advice that related to his specific problems. He approached SBDC, but they were unable to help him with anything other than financing assistance. He asked that they assist him with a market survey to use as a basis for moving into commercial recording, but they declined. The managerial assistance that they did supply was most often in the form of general advice given to all of the minority businesses in the city, and included such general items as reminders of tax payment deadlines. Mr. Hazard felt such advice was too general and an insult to his intelligence. Neither did his attempt to find managerial assistance from a paid consultant work out well. Mr. Hazard believes that the consultant plotted to take over the studio by subverting the bank's confidence in him.

Mr. Hazard hopes he will again have a chance to start his own business. He believes his experience with Sound Souvenirs has taught him some valuable, albeit expensive, lessons about business management and the borrower-lender relationship. His immediate problem, however, is to deal with the personal bankruptcy for which he feels he must file.

7. Shoe City

Bud Jones was born in Georgia in 1939. At the age of 10, after his father's death, Bud and his mother moved to Gotham, a Northern city of about 3 million population. He graduated from a segregated high school in 1958 and shortly thereafter went to work as a salesman in a Gotham shoe store. The store was part of a chain owned by one of the Nation's largest shoe retailers. Mr. Jones had had no previous contact with business and was not at that time acquainted with anyone who had.

After 3 years of experience as a salesman, Mr. Jones was offered the opportunity to manage one of the company's stores in Cincinnati. The job lasted for 9 months, and ended with Mr. Jones' dismissal following a misunderstanding over his management of the inventory.

Following his termination Mr. Jones returned to Gotham and accepted a position as manager of a local shoe store. However, his managerial positions had started him thinking about owning his own store, and 3 years later he left to start his own business. In August 1965, with a loan from the Small Business Administration ("I was one of the first blacks in the area to get an SBA loan.") he opened a retail shoe store on Gotham's Madison Boulevard, an inner-city ghetto area

Mr. Jones advises that this shoe store was moderately successful, even though he was competing with 11 white-owned shoe stores in the area. However, in April 1968, Mr. Jones' store, plus nearly all the other retail businesses in that area of Madison Boulevard, whether white- or black-owned was looted and burned following the assassination of Dr. Martin Luther King, Jr.

Decision To Try Again

Although covered by insurance, Mr. Jones was discouraged by the loss of his store and uncertain as to whether he should attempt to go into business again. After giving brief consideration to a sales position with an insurance company, he decided he had no real alternative but to return to the shoe business. This was the field in which he felt he could best earn a living and provide for his family of five. Furthermore, the national dialogue on racial discrimination and the lack of business opportunities for black people had impressed him, and he felt it important to respond to the challenge. He wanted to develop a successful business—maybe even the first black-owned retail shoe chain—and thus be able to provide both jobs and a good example for other members of the black community.

Wary of the Madison Boulevard area, Mr. Jones decided to start anew in the main downtown shopping area. He reasoned that this would enable him to draw customers from all over the city and suburbs, and not just from the ghetto area where he had been before. He obtained an option on the rental of a suitable location and applied to the SBA for a second loan.

Mr. Jones advises that he returned reluctantly to the Small Business Administration, for he was somewhat at odds with the SBA due to difficulties related to the initial loan. Although specific details of Mr. Jones' difficulties with the SBA are not available, it appears that he was irked over the time taken to process the previous loan, as well as with the SBA's insistence that the insurance proceeds from the loss of the last business go to the SBA as payment against its initial loan. Mr. Jones, on the other hand, felt some of the insurance funds should be made available to him for his use during the difficult time following the loss of the store. He was convinced, however, that there was nowhere else a black man could obtain financing.

Anticipating difficulties with the SBA, Mr. Jones sought aid from a local technical assistance group, a nonprofit organization that assists minorities in their small business endeavors. This organization helped him to prepare the loan application and then saw it through to approval by the SBA. The application required several months to process, however, and Mr. Jones feels that the SBA delayed it unnecessarily. By the time the loan was approved, Mr. Jones had lost his option on the downtown location that he had chosen for his new venture.

After the loss of the downtown site, Mr. Jones felt he had little alternative but to return to the

Madison Boulevard area. However, before making the final decision, he discussed the future of the area with several area residents and merchants. They convinced him that the disturbance did not signal the start of a period of lawlessness or revolution. With some misgivings he decided to return to a shop on Madison.

Preparing for a New Start

Although Mr. Jones believed it would take approximately $65,000 to $70,000 to start his new business, he was convinced that the SBA would not give him a direct loan of more than $30,000. Accordingly, that was the amount he requested and received. Terms on the loan included a 10-year repayment period and interest at the rate of 5½ percent. As security, Mr. Jones and his wife gave their personal guarantees, plus a lien on all of the business' fixed assets. After paying $10,000 of the amount received back to the SBA to satisfy the remainder of his earlier obligation, there was $20,000 left with which to start the new business.

The store that Mr. Jones chose for his second venture had been a linen store before the disturbance. He signed a 5-year lease for rent payments starting at $600 per month and increasing to $850 per month by the fifth year. Unlike most other stores in the area, the one Mr. Jones had selected was repairable. The owner of the building contributed $2,500 for repairs. Mr. Jones himself spent $7,500, primarily on remodeling the front to make it more secure. A brick wall and an iron gate now assure that a night looter will not be able to get beyond the merchandise located in the store's display windows. He also spent $4,000 remodeling and furnishing the store's interior.

With the remaining cash from the SBA loan, Mr. Jones spent $6,000 as a down payment on a $28,000 shoe inventory, and another $1,000 on insurance, lawyers' fees, and other miscellaneous startup expenses. This left a beginning cash reserve of $1,500 which he reports proved inadequate. He also complains that his initial shoe inventory was inadequate; he believes he should have had twice that amount in order to offer his customers a reasonable selection and thus encourage their return.

Mr. Jones also had difficulty obtaining insurance coverage. Following the heavy losses suffered during the 1968 disturbances, the insurance companies were not enthusiastic about providing new coverage in the same area. Eventually, he was successful in obtaining fire and comprehensive coverage by utilizing the city government's insurance placement facility which came into being in late 1968. Neither he nor other businessmen in the area were successful in obtaining coverage for window breakage or theft, unless the loss resulted from riot. Mr. Jones felt compelled to protect his business from burglary, robbery, and vandalism, and therefore purchased firearms which are kept behind the counter at all times.

He opened Shoe City in December 1968.

Business Operation

Mr. Jones knew that the vast majority of his customers would come from Gotham's black community, and primarily from the residential area near his store. He would have preferred to sell to the whole community, but he realized that he couldn't expect many white walk-in customers in a retail store located in the center of an inner-city ghetto, and especially an area that had recently gone up in the smoke of a riot. In fact, Mr. Jones is surprised that the few whites who have patronized his store were willing to travel into the ghetto for a pair of shoes.

Mr. Jones believes he understands the tastes of his customers. The Gotham black community definitely leans toward quality clothing, he says, not necessarily the elegant, and expensive "name" goods, but medium- to high-priced goods which he defined as "high style." This clothing is always at the front of the new fashions. He says the young black consumer will search through nearly all of Gotham's "high style" shoe stores to find what he wants. Finally, he believes the black customer often prefers to buy from the white retailer rather than the black, apparently believing that "what whitey has to sell is better."

Decorating his store in accordance with his definition of the market, Mr. Jones created a soft chair, brick, and thick carpet atmosphere. It seems out of place in the Madison Boulevard area where the burned-out and boarded-up stores outnumber the operating ones. Inside the store are men's and women's "high style" shoes representing the latest in fashion footwear. "You're in the wrong store if you're a man who has gone shopping for

a pair of lace shoes."

Since Shoe City was one of the first retail stores to open in the area after the riot, it was for a time the only shoe store in the area. In this situation Mr. Jones broadened his line to include lower priced shoes. However, once a second store opened with its sights set for the lower price market, he returned to stocking only "high style" shoes, plus such accessories as jewelry, wallets, and handbags.

Mr. Jones' sales derive almost entirely from purchases by walk-in customers. He advises that he does not know what portion of his business comes from the spot radio commercials or newspaper ads he buys in the local black news media. He believes in the importance of advertising but is uncertain what role it has played, or should play, in his business.

Profits and Problems

Bud Jones advises that when he undertook his business venture he expected sales of about $150,000 and profits of $15,000 for the first year. Much to his surprise, actual sales were $250,000 in the first year, and profits $18,000.

Encouraged, Mr. Jones expanded his inventory in anticipation of an even better second year. Unfortunately, however, the country experienced an economic downturn during the business' second year, and unemployment rose significantly among Mr. Jones' inner-city customers. When he was able only to maintain sales at a level equal to his first year, he had an overstocked inventory. Further, because of the style of shoes he carries, it was particularly difficult to deal with the problem. He felt he could not simply cut back on purchases of additional inventory stock, for his customers had come to expect him to carry the most recent shoe styles. Thus Mr. Jones felt compelled to continue adding shoes as new styles came out. Not to have done so, he believes, would have meant risking his store's "high style" reputation. "You've got to have a wide selection," he claims. "Every customer should be able to see 10 pair of shoes in his line of interest." In consequence, nearly 1 year later, Mr. Jones still has an overstocked inventory.

With too much of his working capital tied up in inventory, Mr. Jones is often caught short of operating funds. Unwilling to delay employee salaries or loan payments to the SBA, he has chosen to deal with the problem by delaying his payments to his shoe suppliers. None of them has refused him credit on his purchases as yet, but he advises that he must be careful not to stall any creditor too long lest he lose a source of shoes. Of course until his cash position improves, Mr. Jones will be unable to take advantage of discounts offered for paying his bills promptly.

Another problem is a consequence of the store's location. Not long ago, two major credit card companies in Gotham withdrew their service from all retail establishments in the Madison Boulevard riot area, claiming that the area is too vulnerable to the fraudulent use of credit cards. The result was an immediate drop in Mr. Jones' business, since an estimated 10 percent of his sales were made on the credit system provided by those two facilities. Mr. Jones believes that this loss, adverse economic conditions, and high unemployment explain the failure of second-year sales to exceed those of the first.

Mr. Jones has not experienced any significant difficulties due to criminal acts. The biggest loss to date was the result of two broken windows not covered by applicable insurance. There have been some near misses. Once, a would-be burglar was frightened away by a security alarm—after drilling through the store's back wall. On another occasion—Mr. Jones and two employees sat up for two nights in the store, armed and prepared for possible looting.

Finally, Mr. Jones is concerned over the future of the Madison Boulevard area. After the disturbances, plans for a general renewal of the area came under discussion, and the urban renewal authorities began to condemn and purchase certain buildings in the area in preparation for their development activities. However, 1½ years after the riots the urban renewal plans are still not definite. Half of the stores are still vacant, with plywood doors and windows and smoke-stained exteriors. The combination of an unfavorable appearance, few operating retail stores, and general ununcertainty as to what the future holds has convinced Mr. Jones that he should put no faith in the area's commercial prospects.

Success and Dissatisfaction

In spite of the indicated problems, Shoe City is a successful business venture. Mr. Jones decided

near the end of the first year of business to establish a second shoe store in another black commercial and residential area across town. Mr. Jones accomplished this without adding any new debt, using instead the funds generated by sales. The second store obtained a profitable position in short order, and Mr. Jones is now preparing to open a third store, this time in the main downtown shopping area where he can better attract customers of all racial and ethnic backgrounds. With a tight cash position, however, he will most likely use new debt to finance this expansion and is currently negotiating with the SBA.

Although this growth record seems impressive, Bud Jones is only moderately satisfied. He feels he should have done better, and that his own failings as a manager are holding things up. Furthermore, he wonders whether what he considers to be "limited success" is sufficient reward for the 72 hours per week that he works and the attendant headaches which cause frequent strains on his family life.

8. Computer Consultants, Incorporated

Kenneth Smith says he has always been a "young man in a hurry." He says that he has had a compelling urge to succeed ever since he was a boy, the first of nine in a family whose tailor-father died when Kenneth was 8.

Mr. Smith put himself through college, and graduated in 1960 with a B.S. degree in mathematics and an ROTC commission as a second lieutenant in the U.S. Army. He gave brief consideration to a military career but decided he couldn't stand "the Army's hypocrisy of nondiscrimination." He completed his active duty service in mid-1963 at the age of 24.

Once out of the Army, Mr. Smith took a job with a large aircraft corporation in Texas. However, he quickly concluded there was no opportunity for advancement to a supervisory position, because there were no black supervisors in the aircraft corporation's Texas operation. He quit after about 1½ years.

In early 1965 Mr. Smith accepted a position with an engineering consulting company which was contracted to do work at a U.S. Government research institute in Hanford, a Northern city of about 2 million population. In a short time the company selected him to attend a special training program, and promoted him to a supervisory position. Mr. Smith was pleased with his progress, but was still discouraged by what he believed to be limited prospects. He began thinking of starting his own business.

Decision To Enter Business

Mr. Smith discussed his business ambitions with his work acquaintances, and together they analyzed a variety of possibilities. By mid-1967, Mr. Smith was convinced he had hit upon a good idea. His experience at the institute had acquainted him with the computer software work for which the institute contracted with private research and consulting companies. He was certain that with a company of his own, he could perform the same work satisfactorily. He quit his supervisory position in April 1967, and went to work with a small engineering company in a job which would allow him more time to develop his idea.

Mr. Smith's proposal to start a consulting company attracted the interest and support of five other individuals, most of whom were working at the Government research institute. Mr. Smith agreed to take them on as minor partners, and together they formulated a plan. Using the inside experience of its founders, the new company would bid low and pick off a sizable contract from the institute. With this contract, and perhaps one or two others similarly obtained, the company would have a substantial base of operations for the next 2 to 3 years. This would be ample time in which to develop certain "proprietary packages" to sell nationally. The "packages" would consist of specialized computer programs to provide accounting systems for physicians and dentists, and

crime recording systems for law enforcement agencies. Within 1 year the company would be turning profits, and after 3 years it would be a multimillion dollar company with diversified interests in several technical areas in which its engineers had developed patented concepts. At that point Mr. Smith would step up from company president to chairman of the board, and begin pursuing other interests such as politics and writing.

From his contacts at the institute, Mr. Smith received encouragement regarding the prospect of obtaining a 3-year $500,000 contract which was soon to be awarded. Based upon this encouragement, he decided that it was time to open his business.

Financing the Venture

Armed with an investment prospectus, Mr. Smith approached the SBA-sponsored Service Corps of Retired Executives (SCORE) for advice on starting his venture. He explained the company's long-range plans and outlined its financing needs. Mr. Smith and his partners estimated that the company needed $250,000 in order to assure that it had adequate time to develop and sell the "proprietary packages" which they considered the key to business success.

Recalling his experience with SCORE, Mr. Smith is quick to express his appreciation for the advice concerning the technical aspects of starting a business. However, he was not willing to accept SCORE's suggestion that a computer software company could start with considerably less than one quarter million dollars in initial financing. SCORE recommended that the company reduce the size of its initial capitalization and accept a more conservative plan of growth and diversification. If the company would do this, SCORE would assist in obtaining the financing and in setting up the business. This was not acceptable to Mr. Smith and his partners, and they declined SCORE's assistance in favor of that of a local investment bank.

The investment bank was interested in serving as Mr. Smith's underwriter for a public stock offering. In 1968 the market for new issues of computer software companies brought top dollar, and "going public" held the key to the accumulation of large amounts of money for many young glamor companies and their investment bankers. The investment bank assured Mr. Smith there would be no problem in raising $250,000 for the company. However, Mr. Smith would first have to find an initial equity investment of $25,000 (10 percent of the intended issue) and obtain one large consulting contract.

Together with two of his partners, Mr. Smith returned to Texas and successfully raised the required $25,000 among personal acquaintances. Each investor was restricted to an investment of a few thousand dollars in order to limit his risk, and to assure that effective control of the business remained in Mr. Smith and his associates' hands. In return for their promotional efforts, plus a token investment, the founders retained approximately 50 percent of the stock, and received stock options which would be of value should the company succeed. Mr. Smith felt he was on the verge of seeing his dream become reality.

Upon returning to Hanford, Mr. Smith called a meeting of the investment banking firm, his attorney (recommended by the stockbroker) and himself, to conclude arrangements for stock offering. They met in the attorney's office, where Mr. Smith's concept of the ease and benefits of "going public" crumbled.

Mr. Smith recalls he was so nervous that he couldn't sleep the night before the meeting. He realized that the next day would see him discussing the crucial question of taking his company "public" with two individuals much more knowledgeable on that subject than he. He was uncertain as to how these two people—both white—intended to treat him. The attorney, whom he had not met, was to be his agent, but Mr. Smith was suspicious of the attorney's interest and loyalties. In addition, the stockbroker had been only a casual acquaintance.

The next day brought surprise and disappointment. Immediately upon hearing the investment bank's proposal, and before Mr. Smith could say a word, the attorney "jumped up from behind his desk saying 'No, we'll never do that . . . I will not be a part of it . . . you are trying to take advantage of these guys!' " Mr. Smith reports that he sat for a half hour while the two argued as though he weren't there. The next day he "received a letter from the stockbroker saying they [the investment bankers] could no longer assist us, that they had

dissolved their relationship with us, and would no longer serve as our financial manager."

Mr. Smith advises that the investment bank had proposed that it be given an initial 50,000 shares in the company in return for its efforts in raising the $250,000 and a nominal investment of 5 cents per share. At the time there were only 98,000 shares outstanding, divided among Mr. Smith, the other founders, and the Texas investors. The attorney apparently objected both to the investment banking firm's fee and to the fact that the Texas investors had not been forewarned that their interest in the company was to be diluted to the extent of 50,000 shares retained by the investment bank.

Mr. Smith was caught off guard by the whole affair. He had not considered what the investment banking firm's interest was likely to be, and accordingly was not aware that the other investors' equity position stood to be diluted drastically. Taken by surprise he was unable to even attempt to salvage some sort of compromise with the investment bank.

Faced with the reality that there was to be no quarter of a million dollars to support the grand opening they had planned, the founders concluded what in fact had been obvious all along. There was no reason why the operation should require an initial $250,000. Thus without altering their initial plan in any way, other than to cut the number of employees from 17 to five, they decided to open for business and strike out after the $500,000 contract. They felt that once this contract was in hand it would draw additional investment funds from innumerable sources. After paying the expenses related to startup, the company had a $21,000 cash reserve to carry it until it could become self-sustaining.

Business Failure

Computer Consultants bid on the $500,000 contract but lost it to an established competitor. As Mr. Smith recalls the company's failure, he is usually objective and philosophical. On certain subjects he becomes rather emotional, however, and the loss of the $500,000 contract is one such subject. That topic can be counted upon to bring forth some of his most bitter comments, directed at the established system of awarding government contracts and at the firmly entrenched software companies which seem to him to be "above" the requirements of competition.

He believes his unsuccessful bid was the result primarily of undue preference given to the established consulting companies, plus an "anti-Smith" bias on the part of the institute. He minimizes the importance of other factors.

Without knowing exactly why Computer Consultants lost its target contract, it is nevertheless obvious that Mr. Smith overvalued the advice of his acquaintances at the institute. It is also apparent that he misjudged the degree of determination with which the established firms would meet anyone challenging them for a $½ million contract. His business strategy was concise but very much oversimplified—bid lower than the competition. After losing the $500,000 contract he applied this same strategy to several publicly announced invitations to bid on specified contracts, but always without success.

The few small contracts that Computer Consultants did obtain, approximately $32,000 in 2 years, came from a market technique which Mr. Smith had originally intended to shun—the submission of unsolicited proposals. In this area Computer Consultants did achieve some degree of success, probably because it was able to avoid direct confrontation with its competitors, who were either unaware of the potential business or uninterested due to the small dollar value of the contracts.

With the $25,000 original investment, plus the $32,000 in revenues, Computer Consultants managed to stay in business for 2 years. However, even though Mr. Smith regularly put in 60- to 70-hour work weeks, no sizable consulting contracts were ever obtained, and none of the so-called "proprietary packages" proved marketable. Why the company could not develop more business through unsolicited proposals is uncertain, but it appears that Computer Consultants lacked the salesmanship required in an area which depends heavily upon personal contact.

In the final analysis, Computer Consultants was dead long before Mr. Smith buried it. Mr. Smith himself did not draw any salary for most of the last year that the company was in existence. His

family of seven subsisted on the small teacher's salary earned by his wife. A combination of intense pride, determination, and an unwillingness to recognize or accept the realities of the situation kept him going long after the inevitable should have been apparent.

9. Woodward Employment Service

In 1958 Charles Benson completed the 2-year general business course offered by a local business institute in Woodward, a city of about 400,000. For the next 2 years he was employed as a personnel specialist by a large corporation. At the end of that period, he had concluded that this means of making a livelihood was not for him—he wanted a higher income and more personal freedom. Accordingly, he decided to seek an opportunity in which he could be self-employed.

Mr. Benson left the corporation in 1960 to start the Benson Appliance Store. The venture was ill-fated, and after struggling for close to 3 years, the pressing economic requirements of his family caused him to return to being an employee. Drawing on his previous experience, he found a job as a personnel counselor with the State government's employment service.

For 5 years Mr. Benson worked with three organizations concerned with providing jobs for the deprived and needy people of the Woodward metropolitan area. This experience gave Mr. Benson an understanding of the market for unskilled and semiskilled labor in the general area.

Although his first venture had been a failure, Mr. Benson's desire to be an entrepreneur never faltered. His most recent 5 years as an employee convinced him more than ever that only in self-employment was there a possibility of achieving substantial financial reward. Once he had financially recovered from his first business venture, he started searching for another business opportunity.

At work Mr. Benson had met Roger Pearson, who is white and seemed competent and knowledgeable in employment placement. In conversations with him, Mr. Benson had discovered that they both wished to be free of the constraints of a job, to run their own business, and to reap the financial rewards of their efforts. He also found that he and Mr. Pearson were compatible and shared common views as to the commitment and objectives required to make a new business go. Both were 35 years of age. Together they began exploring the means by which the two of them might launch a business venture which could capitalize on their combined knowledge and experience.

Through their work experiences, the partners had reached two general conclusions concerning the local market for unskilled and semiskilled help. First, there was a growing acceptance by employers of the concept of hiring temporary help as needed for specific jobs, instead of constantly varying the size of the "permanent" work force. Second, the employment agencies in Woodward supplying temporary help were doing an unsatisfactory job in providing quality workers.

The partners decided to test the demand for a new temporary help employment agency by asking the oponions of personal friends in the top management of some of Woodward's largest corporations. The replies indicated that most of those individuals believed that a new agency could succeed. Already convinced of their ability to provide higher quality help than the competition, this was all the encouragement the partners needed. With contacts in high places they felt certain they could "steal the contracts" from their competition, which included the Woodward offices of two national temporary employment agencies and a well-established local agency.

Getting Started

The next step was to approach the Woodward Community Uplift Corporation (WCUC), a non-profit economic development corporation recently organized for the purpose of assisting minorities to get into business. They prepared a proposal of their intended venture, and outlined the initial investment requirement of $50,000.

WCUC agreed to assist the venture, and it provided guidance in the formulation of a more sophisticated proposal which included actual projections of cash flow for the first 3 years. These projections are summarized as follows:

Sales and Profits	1st year	2nd year	3rd year
Sales Revenue	$160,000	$340,000	$379,000
Profit Before Taxes (loss)	(32,800)	24,100	28,200

On the basis of the revised proposal, WCUC sought financing on the partners' behalf from a local bank which had already indicated a willingness to participate in community efforts to promote minority business. The bank agreed to lend the new venture $46,000, to be repaid in installments of $20,000 and $26,000 plus interest, at the end of the second and third years of business. During the first year only interest payments were required, with the rate set to fluctuate from 7½ percent to 8½ percent depending upon movements of the prime interest rate. Since the loan was essentially a working capital to sustain the firm until it obtained the profitable stance projected for the second year, there was no equipment of significance which could be offered as security. Equipment was limited to office furniture and two vehicles for transporting the workers. The bank settled for the personal guarantee of the partners, supported by the pledge of their personal assets and a life insurance policy on each. The bank did not ask for a guarantee from the Small Business Administration and did not request that WCUC itself give financial assistance.

With $2,000 from each of the principals, the agency had total initial financing of $50,000 which was more than the partners thought they needed. However, they preferred to have the "cushion."

Messrs. Benson and Pearson chose the location of their office carefully. After consulting with others familiar with the business of supplying temporary help, they decided upon a site not far from the center city on a main arterial highway. They signed a 1-year lease for the three rooms at $150 per month. The area is commercial by day, and heavily populated with transients by night. Next door is the local unemployment insurance office, and nearby are a State employment office and a manpower training center. Low income workers and unemployed transients lived in the residential areas nearest the office location. This population therefore would yield the labor force of part-time employees needed by the new employment agency.

Total expenses related to opening were approximately $5,000, leaving cash on hand of $45,000. They projected fixed expenses for the first year at $44,800, consisting of the partners' salaries of $13,000 each, a $9,000 dispatcher's salary, $6,500 for advertising, $1,800 for rent, $1,000 for insurance, and $500 for utilities.

The partners quit their regular jobs, and opened their employment agency, the Woodward Employment Service, in November 1968. Desiring to get off to the best possible start, the partners had purposefully waited for the summer's end and the students' return to school, in order to open at a period of peak demand for temporary help.

Early Difficulties

Once open, the partners followed their strategy of soliciting the business of large local corporations. However, sales did not develop as they had anticipated. Only a few of the large corporations responded to the partners' contention that their labor force of part-time employees would prove more courteous, qualified, and responsible than that of the competitors. Those that already employed temporary help were not interested in switching employment agencies, and the partners could not convince companies not already using temporary help that there were sufficient benefits to warrant beginning the practice.

It was obvious to Mr. Benson that he and his partner had erred in their presumption that future business was assured by, or would result from, the casual conversations with those in the top management of the large corporations with whom they had originally spoken. He further realized that they had talked with the wrong people in their attempt to get an accurate reading of the prospects for future business. In large corporations it is middle management rather than top management that hires temporary or part-time employees, and specifically it is the responsibility of those in the personnel offices. Furthermore, Mr. Benson learned that the personnel department managers

were most reluctant to switch to the Woodward Employment Service from one of the three competing agencies. Typically, through repeated contact, the personnel manager and the head of one of the agencies had developed a friendship which eliminated any consideration of terminating the established business relationship. In one case the corporation's personnel manager was also a manager of one of the competing agencies.

Another of the partners' misjudgments concerned their strategy for providing a high-quality work force. By improving their screening techniques and paying a slightly higher wage—the cost of which would be passed on to the customers—they had felt that they would be able to provide better help. As it turned out, that strategy was unrealistic. It took but a short time for the partners to realize that their work force would not be superior to that of the competition. To a large extent it was the same work force. On any given morning unemployed transients and residents seeking temporary work would make the rounds, either in person or by phone, of all four agencies. Needing work, they did not care who provided it.

A Competitive Response

Faced with a situation quite different from the one expected, the partners realized they weren't going to "steal" any business. They would have to scramble for it, and be aggressive and inventive.

Since only a few large corporations had agreed to use their services, the partners approached Woodward's smaller companies. Although many turned them down, eventually their efforts showed results. Many smaller companies that never hired help on a temporary basis were persuaded of the economic benefits. For a large company with a sizable labor force the unpredictable short-term upsurges in work demand can frequently be dealt with by shifting workers, and if it is occasionally uneconomic, the end result is not very significant given its sizable budget. The smaller company, on the other hand, finds it more difficult to adjust to a short-term work upsurge, and the savings to be realized by not carrying a permanent work force large enough to handle emergency situations can be significant. Thus the concept of hiring temporary employees was appealing to this new market.

A second benefit which accrued to the partners by seeking business from the smaller companies was the reduction of the number of direct competitors. Two of the three original competitors were local offices of national employment agencies, and their sales efforts tended to be directed toward large industrial corporations which were frequently part, or potentially part, of a national account. By thus approaching the smaller companies, Woodward Employment Service frequently needed to compete with only one agency.

Since it turned out that the service Woodward Employment provided was essentially the same as its competitors, Mr. Benson realized that one of the few ways to outpace the competition was by being more prompt and efficient in satisfying the customers' needs. Accordingly, the agency attempts to stay fully informed of the changing labor needs of its customers and, when possible, to predict the need for extra help before the customers themselves have taken steps to deal with it. Mr. Benson advises that one of the most effective practices they have initiated is placing a daily morning telephone call to customers, inquiring whether they are going to need temporary help that day.

The firm also managed to find another source of revenue by recognizing an opportunity to expand its services and decrease unproductive time for men and equipment. To assure that its workers arrived promptly at their place of temporary employment, the firm had purchased five vehicles. However, since most jobs lasted for the length of a regular work day, the vehicles and drivers were frequently idle most of the day. Capitalizing on this, the partners started the Woodward Delivery Service in January 1970. First-year projections indicated that the radio-dispatched service will contribute approximately $25,000 in extra revenue.

Last, the partners have been both hard working and imaginative in promoting their employment and delivery services. From the start the main thrust of the marketing effort has been based on aggressive, personal contact by the partners, who stress the necessity of going to the customers instead of waiting for them to come to you. The company later added radio advertising and retained the services of a professional advertising agency to develop direct mail advertisements. An example of an advertisement for the Woodward Delivery Service asks "Have you had any fast pick-ups lately?"

Financial Results

To date the firm has experienced no significant problems in meeting its financial obligations, but Mr. Benson anticipates that it may have to renegotiate the $20,000 bank loan payment due shortly. He explains that the need to negotiate is a result of cash flow problem inherent in the nature of the temporary employment agency business. The agency's workers are paid at the end of the day, while the companies employing them pay the agency on the average of 30 to 40 days later. Thus the Woodward Employment Service has a constant accounts receivable investment equal to more than a month's billings.

In addition to this cash flow problem, the partners are also influenced by the same tendency toward caution which originally prompted them to obtain a loan for an amount greater than they felt was necessary. They still feel they want some "cushion" in case serious cash difficulties arise. They intend to propose a payment of $10,000 to $15,000, instead of the $20,000 scheduled, and believe the bank will assent to this request.

Although the firm has run into unanticipated difficulties and a lagging economy has hurt employment generally, the company achieved sales of $101,900 the first full year in business, and experienced a loss of $11,000, much lower than the projected first-year loss of $32,800. For the second-year indications are that sales will top $200,000 and generate profits of about $35,000.

10. Clark's National Service Station

Ed Clark was born in 1940 in Foster, a Southern city of 125,000. Except for 5 years when he worked in New York he has spent his life in the city of his birth. He went to New York after graduating from high school and worked as a laboratory assistant and later as a truck driver. In 1962, upon returning to Foster, Mr. Clark obtained employment as an attendant in a day care center.

Soon Mr. Clark began to feel the limitations placed upon him because his formal education had ended with high school, and he considered taking vocational or college-level courses. In 1966 he enrolled in an auto repair course at a local technical institute. By 1967, through his job at the center and social engagements, he was meeting Foster's businessmen and made the type of contacts which influenced him to attempt a business venture of his own.

Mr. Clark had become interested in business while a teenager. From ages 9 to 15 he had worked in a grocery store, and that experience awakened an interest in starting his own business. In addition, his father was an auto mechanic and for a short period had a repair shop of his own. After the shop was forced to close, young Ed Clark was left with the feeling that it might have been successful if it had been better managed.

During 1967 his interest in business grew. He considered a nightclub, but his interest was dampened when he found that nightclubs in the area had very high rates of failure.

Opportunity

During the time that Ed Clark was exploring the nightclub and other business opportunities, he happened to notice a gas station being constructed on a well-traveled arterial in a racially integrated neighborhood of Foster. The new station was less than a mile from the city center. Two blocks away was a large shopping center with six other service stations.

Having noticed the building, Mr. Clark approached the local jobber of the major oil company for whom the building was being constructed. He indicated his interest in entering business for himself, and, after hearing the details of the operation from the jobber, became convinced that this was an opportunity worth following up. After several interviews, Mr. Clark was accepted by the oil company as a satisfactory candidate for the dealership.

Mr. Clark says that he decided to undertake the venture primarily on the basis of his faith in the oil company. He had heard that the company had

a reputation for fair treatment of its dealers. Also, the station was new and no repairs or remodeling would be required.

Mr. Clark now recognizes that there are many questions that he should have asked and many aspects of the business that he should have considered prior to committing his time and effort. Nevertheless, at that time his desire to enter business, regardless of the type, was intense, and he was willing to take the risk and accept the difficulties that the venture might mean for himself and his family. His wife was working, and her income would cover the essential household expenses if the service station venture proved unsuccessful.

Mr. Clark made an "uneducated" projection of gasoline sales for the first year. He expected to sell 55,000 gallons per month. This he thought would permit him salary and profits of $9,000 to $12,000. Although competition would be substantial, Mr. Clark felt that being from the city and knowing many of its people would be sufficient to make the station a success. He anticipated long hours and a 7-day week, but he felt that a successful station and the possibility of beginning a second operation was sufficient reward.

Mr. Clark had savings that he considered would be sufficient, when coupled with the credit on his initial stock of goods from the oil company, to begin operation.

By early 1968 the arrangements with the oil company and jobber had been finalized and Mr. Clark was sent to the dealer's school sponsored by the company. The company agreed to provide $6,500 in an initial inventory of petroleum products, tires, and batteries. Startup required an additional $1,000 worth of tools and $2,100 in inventory, items purchased from other suppliers. After paying licensee fees and making security deposits for the utility services, Mr. Clark was left with $20 in cash. At the time he opened he was not aware that Foster had an organization to aid minority-owned businesses. He now says that had he known of the organization he would have requested financial assistance.

Open for Business

On June 6, 1968, Ed Clark opened for business in the newly completed service station. The event was an important one for him, his friends and relatives. Mr. Clark had hired one full-time mechanic, and he intended that both he and the mechanic would work 18 hours a day, 7 days a week. In this situation, the help from numerous friends and relatives who worked without pay was of significant benefit to the fledgling operation.

Several months later, Mr. Clark's brother, John, began work as a paid employee. John, having had instruction in automobile mechanics in high school, quickly made himself a valuable asset to the business. He was placed in charge of the repair operation and became assistant manager in charge of the station when Ed Clark would take a few hours off.

Business Operations

Although Mr. Clark's original estimate of gasoline sales at 55,000 gallons per month was exceedingly optimistic, as he now recognizes, sales have been at a level sufficient to establish the business as a profitable one. Actual monthly sales of gasoline fluctuate between 21,000 and 23,000 gallons. The specialized accounting firm that Mr. Clark hired advises him that the all-important ratios between gasoline sales and the sale of other products and services are exceptionally good at Clark's National Service Station. Largely due to John Clark's attention and skill, the major and minor repair service offered by the station is a source of substantial sales. Repair prices are somewhat higher than the amounts charged in neighborhood stations, but Ed Clark feels that the quality of work justifies the higher charge. Nevertheless, he attempts to keep prices under those of the center city repair operations.

Ed Clark reached an employment high of three full-time and three part-time workers, but since that time has cut personnel to the current level of three full-time employees plus himself. He is considering making another reduction, either in employees or in the number of work hours, to further cut fixed costs to the level that his accounting firm suggests.

Finding qualified employees is generally difficult, and Mr. Clark feels that he frequently settles for help that is substandard, particularly with respect to attitudes and responsibility toward their work. Tardiness is a frequent problem, as is the failure to display essential courtesy to the cus-

tomers. On a few occasions Mr. Clark has resorted to "raiding" other stations for new employees.

On three occasions since startup Mr. Clark has sought and received minor short-term financing. In late 1968 he borrowed $1,100 for the purchase of a wrecker. In mid-1969 he obtained a $2,400 loan to purchase a truck for the station. At the same time a separate $1,365 loan was obtained for conversion of the truck to the specifications required by Mr. Clark's operation. He did not require help from outside interests in order to obtain these small loans.

Mr. Clark has come to recognize that his poor bookkeeping practices constitute a principal source of difficulty in his operation. He has engaged an accounting firm that specializes in providing bookkeeping services to gas stations and has received what he considers to be helpful operating analyses and advice. Nevertheless, the accounting firm has been restricted in its ability to provide all of the information and advice that it might, because Mr. Clark has failed to report sales and expenses with the completeness that the accounting system requires. Having recently realized that this information is essential to the successful operation of the station, Mr. Clark intends to improve his recording of sales and expense figures.

Although Mr. Clark has set no fixed salary for himself, he was able to draw $10,000 from the business during 1969. He anticipates that in 1970 this figure will be higher. Ed Clark contemplates turning the business over to his brother John within the next few years so that he may attempt other ventures. At present he is considering starting a charter-bus service.

Mr. Clark believes that any new small business venture will require long hours and that the first requirement for the aspiring businessman is that he have an understanding family. His long hours at the station have created certain family strains. During the first year he worked up to 18 hours a day, 7 days a week. However, he feels the long hours are worth the rewards of the business. For Ed Clark those rewards are not just financial, but most importantly come from the satisfaction of making a business go.

11. Empire Ballroom

In the fall of 1967, Harold Phillips was approached by a friend who was convinced that he had a money-making idea. His friend, Lawrence James, was a music teacher and the leader of a band that played regularly for group dances in Fremont, a large Eastern city of 1¼ million with a substantial minority population. Through his experience with the band, Mr. James had come to recognize a large, unfilled demand in the black community for party and ballroom facilities. Party rooms were available at reasonable rates from social fraternities but these were few and the facilities were small. Social groups and other organizations planning dances had to use the facilities of large hotels and pay premium rates.

Mr. James conceived the idea of establishing a moderately priced ballroom, an alternative solution with profit-making potential. He had found a vacant supermarket in his neighborhood that would be a suitable structure. In late 1967 he proceeded with the next step of putting together a group of five investors—himself, a doctor, a real estate agent, an engineer, and Mr. Phillips who was the only partner with experience and formal training in business management.

Profile of Harold Phillips

Mr. Phillips was born in an east coast city in 1920. Three years later his family moved to Fremont. He majored in business education in high school and in 1941 was drafted into the Army.

After leaving the Army in 1945 he attended a Philadelphia university for 2 years, majoring in business administration. During the summer he found employment at a bank. At that time he was one of a very few black people employed in banking. He had been rejected initially because of race, but intercession by a university official finally

secured his placement. At the bank he was assigned and reassigned to various positions in an attempt to utilize his skills. These changes were designed to limit his direct contact with both customers and white employees. As Mr. Phillips now recalls, "I didn't have anyone to talk to, so I put out more work than the others."

Mr. Phillips returned to Fremont in 1947 and accepted a banking position as teller and assistant auditor. In 1950 he married. His wife was a branch sales manager for a home products company. Two years after his marriage he decided to leave banking because the pay was low, and, as he says, "I couldn't live off the prestige."

Mr. Phillips then turned to selling school graduation rings, caps, and gowns in a tristate area of the South. He kept that job for 2 years, experiencing discrimination and inconveniences. For example, denied lodging in motels and hotels near schools, he would have to drive several hours from the closest black-operated motel and then compete with white salesmen who were fresh from a night's stay in a local motel. Mr. Phillips was not allowed to sell at white schools. Nevertheless, his largest competitors were whites who were free to sell at the black schools in his territory.

After 2 years on that job, Mr. Phillips switched to selling cars for a Fremont agency. He did well as one of the few black salesmen in that business.

In 1957 Mr. Phillips and his wife were given the distributorship for the home products business in which she had been a branch sales manager. Mr. Phillips resigned from the car selling position to devote his full time and attention to the expanded responsibilities of the distributorship. That business was successful and grew to the point where there were over 100 salesmen.

Mr. Phillips reduced his full-time participation in the distributorship in 1964 to begin teaching adult business education courses. Mrs. Phillips remained full time in the business.

In 1967, when Lawrence James presented the idea of investing in a ballroom, Mr. Phillips was willing to apply his business acumen and experience to this new project.

Getting Started

The supermarket building that the five partners chose as the ballroom site had been vacant for 1½ years because of a high incidence of crime in the area. The five investors contacted the supermarket chain to discuss a possible sublease. Not unexpectedly, the chain was interested in this arrangement. As a next step the group solicited remodeling cost estimates from several Fremont contractors. The estimates for converting the building to a ballroom ranged from $19,000 to $48,000. The low bid was submitted by two black contractors who were acquaintances of the investors.

In the initial meetings among the investors, Mr. Phillips stressed the importance of proceeding properly with the financing of the proposed venture. During his long association with small business, both as a participant and instructor, Mr. Phillips had concluded that many new businesses, especially minority ventures, were subjected to severe difficulties because of reliance on initial financing and the heavy cash outlay required to pay the debt. He also felt that the borrower had severely restricted his opportunities for subsequent financing because the business' assets were already pledged as security for the initial long-term loan. This limited the entrepreneur's flexibility to deal with expansion or periods of difficulty.

The partners concluded that they would rely principally upon their own investments and calculated that the venture would require an initial capitalization of $25,000. Each of the five was to put in an equal share of that amount. Mr. Phillips mortgaged his home to obtain his $5,000 share.

The five then investigated requirements for obtaining a license to operate a public hall. At this point they encountered two problems. First, they were advised that even if the renting groups were to bring their own liquor, the operation required a liquor license. Further, food would have to be served in order to obtain that license. This required the partners to expand their concept to include beverage and food preparation service. They decided that their ballroom would provide restaurant service during weekday lunch hours.

The second problem appeared in the form of opposition to the ballroom generated by three civic associations whose neighborhoods surrounded the commercial area in which the building was located. In part, the opposition arose from plans to promote use of the vacant building as the site of a

government-sponsored food market for the poor. The partners attended a meeting of one of the civic associations at which they attempted to calm fears that the ballroom would create crime and parking problems in the area. They explained that they were not promoting a public dance hall. Rather, private groups would rent the hall, and no tickets would be sold at the door. This prohibition on the sale of tickets at the door would guarantee that "undesirables" could not gain admittance to the dances and become nuisances. The partners also explained that the hall was going to provide roof top parking. Finally, they pointed out that all the principals were professionals and aware of their responsibilities to the community.

Not all the community residents were convinced. At a public licensing hearing before the alcoholic beverage control board, the opposition group produced a petition, with 600 signatures, requesting that the license be denied. Two busloads of people were present to show support for denial of the license. Mr. Phillips and his associates were able to produce only 60 signatures in their favor. Nevertheless, the board granted the license, saying that it could not deny the license on conjecture of what might result. The board decided that the hall would be allowed to operate until it proved to be detrimental to the community. The license was granted in October 1967.

The partners and the supermarket chain agreed to a year's sublease of the facilities for $800 a month, or half of the $1,600 monthly rent paid by the chain. The partners also negotiated with the owners of the building for a subsequent 5-year lease at the regular $1,600 monthly rate, with an option to renew for an additional 8 years. In addition, they secured an option to purchase the building for $190,000.

The partners contracted with the low bid, black contractors for the $19,000 renovation and remodeling. Work was begun by the contractors on a part-time basis in November 1967. By April 1968, the renovation was complete and Empire Ballroom was ready to open. The first booking was for May

. A few weeks before the hall was scheduled to open, civil disturbances broke out in several areas of Fremont. The May and June bookings were quickly canceled and the Ballroom's opening was postponed. Deposits collected at the time that the

With the Empire Ballroom renovation com-
reservations were made had to be returned.
pleted, the partners took stock of their investment outlay. The cost of the remodeling amounted to $25,000, $6,000 more than the original estimate. Since the partners' total investment had been exactly $25,000, additional financing was needed to cover expenses of opening. The five partners decided to meet the increased costs by offering Empire Ballroom stock to the two contractors. The contractors accepted $22,000 in cash with the balance of $3,000 in stock shares. Now there were seven partners.

Business Operation

Empire Ballroom opened in July 1968. One of the investors, the real estate agent, became the first full-time manager. Rental rates were set at $250 per night plus an assessment of $1.15 per person. There were two bookings in July, four in August, and 12 in September.

In the fall the partners had a setback. They discovered that the used kitchen equipment, which had been purchased for $5,000 in another State, did not satisfy the city's health regulations. New kitchen equipment, purchased from a local dealer, cost $5,000 plus the trade-in allowed for the used equipment. At the same time the partners decided to purchase about $5,000 worth of new tables, chairs, and other furnishings.

To pay for their new furniture and equipment, the partners decided to apply for a $10,000 loan at a local bank. The bank agreed to the loan, conditioned upon the personal liability of the partners and their wives.

Empire Ballroom had 17 bookings in October, 18 in November, and 17 in December 1968. The volume of business was proving that the partners' estimate of demand for the ballroom facilities was accurate. During the initial 6-month period, from July to December 1968, the ballroom had sales of $36,000 and, despite the unforeseen expenses, net profits of $5,000.

No advertising had been required. The contacts of the five original investors and the demand for the ballroom's facilities were sufficient to generate the high volume of business. Empire Ballroom was still the only ballroom in the city catering to black social groups and organizations.

The year 1969 began with equally good bookings. The operation easily absorbed the $800 rental increase during the first part of the year, to the full $1,600 stated in the lease agreement. In June, the month of school proms, Empire Ballroom reached a high of 24 bookings.

Initially, the operation encountered some difficulty with a few neighborhood youths who "crashed" the dances and stole from the guests. The problem was solved by hiring a security guard for all dances. The first year's operation calmed fears in the neighborhood that the hall would constitute a nuisance. The alcoholic beverage control board, at a hearing held after the first year, renewed the ballroom's license. The partners maintained the policy of not permitting groups to sell tickets at the door and rejected requests for public dances on open nights, even though these affairs would have increased profits substantially.

Harold Phillips became general manager of Empire Ballroom in November 1969. However, he continued to work full time as a business education instructor and attended to the managerial tasks of the business during evenings and on weekends.

In late 1969 a food concession was added to the operation. Before then, food had been provided on request by caterers subcontracted by Empire Ballroom. The restaurant, from the beginning, had been a losing operation.

In January 1970, the basic rental was increased to $300 per night and $1.40 per person.

In August 1970, the partners signed a 2-year, full-services contract with a caterer. The contract calls for the latter to provide all of the food and food preparation services at Empire Ballroom. The caterer now operates the restaurant during the week, and provides late evening and early morning meals for dances and other affairs booked at the ballroom. The partners receive a percentage of the revenues from the restaurant and other catering services.

With the catering contract, the partners significantly reduced their supervisory tasks. Empire Ballroom employees now include only cocktail waitresses and bartenders for the dances, and one full-time janitor. All food preparation and service workers are employees of the caterer.

Mr. Phillips promoted an expansion of kitchen facilities, and Empire Ballroom is now investing an additional $20,000 in order to increase the variety and quantity of food that the caterer can provide. When the kitchen remodeling is complete, Empire Ballrooom will renegotiate the contract with the caterer and increase the percentage that it earns on those sales.

In order to finance the kitchen expansion, the partners approached a local bank and were told that in addition to security provided by the corporation, at least three of the partners and their wives must assume personal liability for repayment of the loan. The partners rejected the proposition and instead have found three new investors who have agreed to provide total equity of $10,000. The remaining $10,000 of the $20,000 required for remodeling will be financed by the equipment supplier. The corporation now has 10 principal investors.

Mr. Phillips advises that demand remains strong, and that Empire Ballroom is operating very close to capacity as far as weekend bookings are concerned. Indeed the ballroom is usually booked 6 months in advance for all weekend nights. Many weekend bookings are fixed up to 1 year in advance. Mr. Phillips considers that the only means of expansion would be through the establishment of a second ballroom. Monthly revenue now averages over $13,000.

In spite of their impressive bookings, the partners are somewhat concerned with the potential competition of certain church groups that have recently begun to rent ballroom space to earn revenue. These groups rent their newly constructed facilities to organizations at prices lower than commercial rates. By not having to meet the same statutory, regulatory, and tax requirements as commercial businesses, church groups can therefore charge lower rates than commercial businesses and still realize a profit. To date, because Empire Ballroom is operating near capacity, the partners have not had to compete with these groups.

In 1970 Mrs. Phillips became office manager, joining her husband who remained as general manager. The operation of Empire Ballroom is now largely in their hands, although the three new in-

vestors alternately supervise on weekend nights. The other investors do not play an active role in the management of the ballroom.

One of Mr. Phillips' goals in entering the venture was to provide the black community with an example of what could be accomplished in business through taking risks in the investment of personal capital. He believes that the black community must be willing to assume that risk if it is to break into the mainstream of the business world. Empire Ballroom has helped him to prove his point.

12. Superior Signs, Incorporated

Daniel Hill could paint a superb sign. Among those in the trade the consensus was that he was one of the best. Customers were pleased with the quality of his work, and once having hired Mr. Hill usually sought him out to fill further needs.

Mr. Hill was proud of his sign-painting ability, and quick to expound upon the quality of his work. In fact it would be accurate to say he was somewhat arrogant about his abilities, and possessed many of the temperamental characteristics normally attributed to professional artists. He was intolerant of others' mistakes, took instruction and direction very poorly, and was generally unmindful of managerial and organizational considerations. The product of his work—his signs—was the only thing he could bring himself to concentrate upon, and with his signs he was perhaps more meticulous than any other sign painter one is likely to meet. Everything that went into making one of his signs had to be perfect—the finest of paint and materials, quality equipment, and surroundings conducive to painting.

Mr. Hill was born in South Carolina in 1932, one of 12 children of a sharecropper. His formal education stopped after the fifth grade. He says that his knowledge of sign painting was acquired during 14 years in the trade, most of which he spent as a self-employed contractor. He also says that he did sign contracting on his own primarily as a "matter of self-preservation." He was fired whenever he tried to work for others, because, he thinks, his work was superior and his foremen were afraid he'd be promoted to their jobs. He candidly concedes that each of his business efforts have been financial failures, but he believes the major cause for failure was either discrimination from the local government and business community or unfortunate circumstances. As he describes his experiences, however, it is apparent that poor management of business and personal affairs also played a role in the repeated failure of his business ventures. In addition, his history is riddled with judgments and fines for such things as not conforming to zoning requirements, operating a business without the appropriate licenses, and not licensing his company truck.

Beginning of a New Venture

In mid-1967 Daniel Hill moved with his wife and four children from South Carolina to Troton, a Northern city of about 300,000. He had heard that in Troton a black person could get financial help for going into business. Upon arrival he found a job with a sign painting firm and started planning his business venture. In the 18 months that followed he was fired by three sign contracting firms, but nevertheless managed to find the necessary financial assistance to open a business.

Mr. Hill's choice of Troton to start a business was a good one. With direction provided by its most prominent business leaders, Troton is committed to the goal of creating business opportunities for aspiring minority entrepreneurs. In 1968 its business community founded Troton Economic Development, Inc. (TED), a nonprofit economic development corporation, to spearhead the effort to get members of the minority community into business for themselves. In late 1968 TED and the supporting community were eager to assist minority individuals with business proposals which looked promising.

Mr. Hill went to TED for help in starting his new

venture. His stated goals, as set forth in his application for assistance to TED, were to: (1) sell specialty, custom signs to the big buyers in the State, such as the large manufacturing corporations, (2) contract with the Federal Government to provide signs, and (3) go national by doing mail order sign painting and franchising local sign shops.

TED approved Mr. Hill's application and assisted him in requesting loan assistance from the Troton National Bank. The total financing requirement at that point was estimated at $100,000. TED agreed to lend $20,000 unsecured except for Mr. Hill's personal guarantee. The Troton National Bank, interested in assisting the community effort to aid the minority population, and acting primarily upon the recommendation of TED, agreed to lend the balance of the required funds. The bank decided not to request a guarantee from the Small Business Administration in the early stages of the venture, but rather to wait until the financing was complete before applying to the SBA for assistance. In the meantime, it accepted Mr. Hill's guarantee, plus liens on the equipment it financed as its only security. The bank decided to advance Mr. Hill the funds as he needed them, by having Mr. Hill bring them the bills for each expense he incurred. A determination of final repayment terms for the loans was postponed until the total financing package (expected to include the Troton National Bank, TED, and the SBA) was completed. In the meantime, each bank loan was to be made on a demand basis, with no repayment dates specified. Mr. Hill put up no capital.

With initial loans of about $30,000, Mr. Hill started his new venture in December 1968, and incorporated it as Superior Signs in early 1969. With the approval of TED and the Troton National Bank, he purchased a small deteriorated shop in a light industrial area, started purchasing high-quality specialty equipment, and began a major renovation and expansion of his shop. He hired his father-in-law, one electrician, a sheet metal worker, and two secretaries to help him. He set his own salary at $1,500 per month. Meanwhile, TED announced his opening and cooperating businesses provided extensive free advertising. Almost immediately Mr. Hill started receiving calls for a variety of painting jobs.

Business Failure

To everyone's surprise, Mr. Hill turned down nearly all of the orders and inquiries he received. In his opinion he was not ready to take on the few large orders he was offered, as all of his equipment was not yet installed and the renovation and expansion were not completed. He also rejected the small orders, as he felt they were so small as to be beneath his dignity. The few orders he did accept seem to have been more or less forced upon him, and he took them begrudgingly.

Near the end of the first year the Troton National Bank and TED reviewed the situation. The bank had loaned Mr. Hill $84,000, and TED had loaned him $20,000. Superior Signs had done less than $39,000 in business and gave no indication of increasing its sales volume in the near future. The renovation and expansion of the shop were far from complete, the shop was terribly crowded and unkempt, expensive specialty equipment was sitting unused, and Mr. Hill was attempting to acquire further loans to purchase still more equipment. The company had continuing personnel problems, nearly all of which seemed to stem from Mr. Hill's lack of administrative ability. In addition, numerous supporters of TED were expressing discouragement and disillusionment over Mr. Hill's apparent mismanagement and aloofness.

The bank reacted to this situation by cutting off its funds for further purchases and by attempting to inject new managerial talent into the business. The bank selected Joe Hendricks, a black man with sign-painting experience and apparent managerial ability, and, with Mr. Hill's reluctant permission, placed him in the business to assist with policies and procedures.

The attempt was a failure. Mr. Hill thought the new man was a "spy," and the bank concluded that Mr. Hill was "too stubborn" to accept help. In January 1970, the bank, acting with the approval of TED, notified Mr. Hill that it was not going to give Superior Signs any further assistance.

It was obvious that Daniel Hill simply did not comprehend the interest of those who had loaned money to his company. In spite of a terrible sales record for his first year, a projection of more of the same for the second year, and a large and growing accumulation of expensive equipment, he was shocked when his loan funds were cut off. It never

occurred to him that the bank and TED, with $104,000 invested in him, would get nervous when the machinery sat unused instead of generating income.

In Mr. Hill's opinion he was building a large sign manufacturing operation, one that was going to mass produce signs for customers across the Nation. He wasn't surprised or discouraged when sales reached only $39,000 the first year. He had intended to spend up to 2 years getting ready to open, with bank loans covering expenses until a break-even point was reached in the third year. Since he felt he would not be discriminated against in Troton, he had decided he would first "take the State" and then go national, establishing a second manufacturing plant in the South and a third in the West. He had no question whatever about where the customers were to come from to rationalize his large plant. He was certain the high quality of his work would draw them.

Mr. Hill could not understand that others with an interest in the business did not subscribe to his views. He did not know what they were expecting of him or what they were looking for in his business. He was not even convinced that their loans entitled them to a voice in the management of his business. It is obvious that Daniel Hill and his creditors never reached a common understanding of either Superior Sign's objectives or business strategy. It is also obvious that all would have been better off had they confronted, at the very beginning the problems inherent in Mr. Hill's perception of his business venture.

Shortly after the Troton National Bank cut off its loan funds, Mr. Hill relinquished his position in the company, and was absolved of any liability to the bank or TED for their loans. Superior Signs was liquidated, and the bank took possession of the equipment and moved it to a new location where Joe Hendricks opened for business.

13. Clayton's Disc Shop

Larry Clayton was born in 1925 in Renton, an Eastern city of about 900,000 population. He attended high school but dropped out before graduation. Subsequently Mr. Clayton went to work for a U.S. Government agency from which he was drafted into the Army during World War II. After 3½ years of Army service Mr. Clayton returned to Renton and to the Government agency. For the next 16 years he worked as a printer with the same agency and in the same department, until a reorganization moved him to another department where he continued as a printer for another 3½ years. He says that although he was devoted to his work before the reorganization, he became quite unhappy after the reorganization in the new department. He was displeased and felt he was discriminated against because he was black. He retired in the spring of 1968 after 27½ years as a U.S. Government employee.

Mr. Clayton had a love for music that started as a young boy when he learned to play the saxophone. By the time he was 16 he was playing occasionally with local Renton bands. He grew up with the music of such artists as Cab Calloway and Tommy Dorsey, and later became a devoted jazz fan, eager to expound upon the artistry of such jazz men as Miles Davis, Dave Brubeck, and Thelonious Monk. While working as a printer for the Federal Government during the 1950's, he played baritone saxophone in his own jazz band which performed in Renton and other east coast cities. He is proud of those days and says he stopped playing in bands only because rock 'n roll pushed "real music"—jazz—out of the limelight. He has never forgiven rock 'n roll for the intrusion, and the slightest encouragement will set him off on an emotional discourse concerning the deterioration of music in the United States and the detrimental effects which the new music produces on society.

Decision To Enter Business

Mr. Clayton says that he "never really wanted to work for anybody," but rather wanted "to be somebody . . . to leave one mark before it was too late." Once he decided to retire from the Govern-

ment these long-held thoughts influenced him to enter business.

Without much hesitation Mr. Clayton decided to open a record store. He asked no one's opinion, but rather "followed his own mind" as he says he had been doing all his life. Retailing records seemed a logical and desirable business venture to him as it would put him back into close contact with music. He also believed it would enable him to educate the record-buying public, especially the young, on the message of jazz as compared to the emptiness of rock 'n roll. Mr. Clayton was serious about the need for such education as a significant contribution toward restoring some of the values he believed today's youth had forsaken.

Mr. Clayton never considered such questions as who his competition would be, or how he would compete with them. For his store, he chose a location in the shopping area of his neighborhood. He found a site that had been occupied by a retail clothing store, until a recent civil disturbance in the area resulted in its being looted and set afire. Mr. Clayton never considered locating in any other section of town. The building was six blocks from the house in which he had been raised, and he considered the community his neighborhood and himself a neighborhood leader. It was here that he wanted to make his mark, to be the success he knew he could and should be.

Mr. Clayton did not make detailed estimates of what it would cost to set up in business, but he guessed it would require from $30,000 to $40,000. Having concluded that no one would lend that amount to a black man, he decided to limit his request to $15,000. He felt certain that none of the banks would consider lending to him, and having heard that the Small Business Administration had initiated a policy of increased emphasis on loans to minority people, he went directly to it.

The SBA consented to lend him the $15,000 he requested. He agreed to repay the loan over 6 years at $248 per month, including interest at 5⅞ percent. He cannot recall what security requirements were imposed other than his personal guarantee. He had no money of his own to invest, and there were no other lenders or investors.

The store selected by Mr. Clayton required remodeling to suit his business. By doing most of the work himself, Mr. Clayton was able to put it into acceptable condition for about $1,000. None of the suppliers would allow him to purchase on credit, and he was required to pay cash for all equipment, furnishings, and inventory. He spent approximately $10,000 on store counters, tables, record players, and record inventory, and another $1,000 for miscellaneous startup expenses. This left a cash reserve of about $3,000. Mr. Clayton says he didn't estimate his fixed expenses, but knew rent was to be $350 per month, wages were to be set at $2.20 per hour, and his own draw was to be $150 per week. He did not project sales, but thought he was "going to be a big success."

Business Operation

Clayton's Disc Shop opened for business in September 1968. Sales personnel included Mr. Clayton, a female friend, her daughter, his own daughter, and two young men. The latter four each worked 40 hours per week at $2.20 per hour, earning total weekly wages of $352.

Mr. Clayton advises that although he detested "rock" music, he knew that a successful record business had to carry "rock" record albums and tapes, for this is what the young wanted. However, he intended to build his store's image as a record shop specializing in jazz. Thus he tried to push the sale of jazz records and never missed an opportunity to "educate" one of the store's young customers on the glories of jazz.

The store was open every day except holidays, and Mr. Clayton estimates that he worked an average of 72 hours per week. He spent about $2,000 on radio and newspaper advertising when he first opened, but later regretted it and did little advertising thereafter. Except when dealing with fellow merchants located in the same area, he sold only on a cash basis, accepting neither credit cards nor personal credit.

Mr. Clayton was able to draw a number of customers from among his church and social contacts, but most were walk-in shoppers from the surrounding neighborhood. The vast majority of sales were of "rock" records sold to the youth market, and 15 to 20 percent were of jazz and other lines sold to customers of varying ages.

Although sales were reasonably good at the start, they soon fell off. Mr. Clayton places much of the blame on his supplier, upon whose judg-

ment he had been forced to rely since he personally had no previous experience in the record business. He permitted the supplier to select the initial inventory, which apparently contained many unpopular recordings. In addition, jazz sales never caught on, and he was therefore forced to try to survive primarily on the sale of "rock" records to the youth market. However, his sale of "rock" records suffered considerably because of direct competition from the large discount record stores in downtown Renton. The young customers were cost conscious shoppers, and since the bulk of their purchases fell into the category of current hits, they were likely to be aware of "sales" through the newspaper advertising of the discount stores. These large volume stores apparently received sizable discounts on hit records purchased in large quantities. Mr. Clayton, on the other hand, did not receive discounts, and therefore could not compete with the continual "sales" of the discount stores. In a short time sales were down to an average of $50 to $60 per day. The situation further deteriorated when a competitor opened across the street.

With the business not generating sufficient cash, the record inventory dwindled considerably. Sales then fell further, as the customers went elsewhere to obtain a better selection. Mr. Clayton started making daily runs to his supplier, who was still demanding cash for all purchases. He used the proceeds from the morning's sales to provide stock for the afternoon and evening. On several occasions it was necessary for Mr. Clayton to use his Government retirement check to buy stock, and replace the money when the records sold. To combat the price advantage of the discount stores he occasionally bought "under the counter" records from private individuals with "no questions asked." He felt this was quite risky, however, and avoided it except when he was desperate. He added perfume and other minor items to broaden sales, but the results were insignificant.

To conserve funds, Mr. Clayton terminated his relationship with the professional accounting firm which had kept his books and gave the job to his female friend. He had never paid himself the $150 per week salary he had intended to take, and he soon stopped paying his female friend as well. He realized the $352 per week he was paying his four sales people was hurting him badly, but he could not bring himself to terminate any of the employees. It wasn't until things were hopeless that one of the salesgirls left.

Expenses were greatly outrunning income, and Clayton's Disc Shop slipped further and further behind in its obligations to its creditors. Finally, in January 1970, the store owner filed for eviction. Larry Clayton was out of the record business.

Mr. Clayton dreams of trying business again, but he has no capital. He lives off his retirement check and continues to pay $50 per month on the SBA loan. He is very bitter toward the SBA and the U.S. Government, and claims he was under the impression that if he "took an honest fall" his debt would be forgiven.

14. Gordon Public Relations Agency

In March 1969, Tom Gordon, 27 years old, announced the establishment of a new advertising and public relations firm, the Gordon Public Relations Agency. It was the first such black-owned agency in Emerson, a large business and industrial city of about 3 million. He had been thinking about starting his own business since completing college 3 years earlier, and he had been considering the specifics of this particular opportunity for a number of months prior to actually taking the plunge.

Tom Gordon is a man particularly well-suited to the business he decided to pursue. His interest in art throughout boyhood had definite and direct relevance to the advertising field. He earned a bachelor's degree in fine arts, a master's degree in design, and spent 2 years studying part time in a private art school. He also had worked as public relations director for 2 years for black social progress organizations and had done free lance public relations consulting for a few local white-owned

corporations. This background had given him valuable knowledge and experience, and had provided him with personal contacts which were to prove valuable to his new company.

Mr. Gordon believes his experiences as a youth influenced his decision to enter into business. Both his father and mother demonstrated an affinity for business and public relations. His father was the only black representative for a national labor union, and as such was frequently involved with public relations in the business world. Mr. Gordon's mother was once the owner/manager of a profitable hotel valet shop and later managed a successful public relations firm. Thus Mr. Gordon was no stranger to the game of influence, persuasion, and personal contact.

Decision To Enter Business

Mr. Gordon sought the advice of many experienced individuals before going into business. They advised that the advertising and public relations business was very competitive ("cutthroat") and that he should probably consider something else.

Mr. Gordon did not deny the highly competitive nature of the business he was considering but was firmly convinced that there was an unfilled need for a service that no other local agencies could offer, and that he could therefore go after a market which others had ignored. Specifically, he believed that the trend to specialty advertising aimed at the black customer market was still in its infancy, and lacked a cultural style and sophistication that his background would enable him to provide.

Other factors entered into Mr. Gordon's decision to go ahead with the venture. First, he was acquainted with two individuals, each possessing 12 years of relevant experience, who could handle the key jobs of media director and copywriter. They were willing to work for the new firm at a reasonable salary plus the promise of an equity interest if the business succeeded. Their availability meant that Mr. Gordon would personally have the time to develop new business, and that he would be able to depend on two experienced and dedicated assistants to stand with him when contract deadlines required long hours and hard work.

Another significant factor which was decisive in convincing Mr. Gordon to begin the venture was the fact that he had assurances of three initial contracts. These he had obtained primarily through the efforts of friends who were willing to use their influence to assist him in getting off to a good start. Perhaps the most important was a $17,000 contract with a large corporation to promote the introduction of a new product. This contract was obtained with the assistance of one of the corporation's upper echelon employees, for whom Mr. Gordon had earlier done personal public relations work.

A final important consideration which influenced Mr. Gordon to proceed was the low capital investment required. Since the Gordon Public Relations Agency was to be a service organization, there was no need to invest in machinery and equipment and a large physical plant. All that was needed was office space, furniture, and a small initial stock of material. Mr. Gordon estimated that he could begin with an investment of only $8,700 from his own savings. This pleased him. He did not want to take out a loan, which would require him to worry about monthly payments, and he did not want any outside investors, who would thereby "get a piece of the action for only a few thousand dollars."

Pushing Sales and Guarding Profits

With an eye on his limited budget, Mr. Gordon set up for business. He found ample office space for $482.50 per month in a renovated building on Jefferson Avenue, not far from an expanding prestige shopping and office area. As he explains, he wanted a location close to the two black social progress organizations for which he planned to continue doing public relations work, but near enough to the city's main business area that prospective white clients would not hesitate to call at the office. After deducting a security deposit equal to 6 months' rent, $5,100 in cash for furniture, and expenses for an initial stock of materials from the $8,700 capital investment, there was little cash on hand at the time of opening.

If Mr. Gordon's initial contracts had not been assured prior to opening for business, the shortage of working capital could have been critical. As it happened, however, monthly retainers from

contracts with two local clients (one of the two black progress organizations plus a local white-owned company) started flowing in immediately, along with the initial payments on his 6-week $17,000 contract with the large corporation. These receipts provided the breathing room needed, and gave him sufficient time in which to generate further business. He accomplished this primarily through the investment of long hours in the development of personal contacts.

In the first year, the Gordon Public Relations Agency's billings amounted to $172,000 of which about $16,000 was gross profit. The profit would have been larger if the company had not invested heavily in travel and promotion for development of future business. These promotional expenditures started paying off in the second year, however, as billings climbed to an annual rate of $500,000, of which approximately $120,000 represents profit. The major portion of this impressive sales increase stems from Mr. Gordon's aggressive personal effort in following up all leads and contacts, developing proposals, and traveling widely to sell them. In addition to the work he has obtained as a prime contractor, he has also found a good market in subcontracting for larger established agencies. These subcontracts usually involve feasibility analyses of marketing opportunities in the black community.

Mr. Gordon is tight with the firm's money and this, along with good sales growth, helps to explain why the company is already a financial success. He sets the pattern himself by drawing his salary, $15,000, and no more, from the company. His five employees receive salaries ranging from $8,500 to $15,000 annually. In return they are expected to put in whatever amount of time is required, usually about 50 to 60 hours per week. All seem satisfied with their pay, and demonstrate a strong commitment to the business. This may derive, in part, from Mr. Gordon's promise to set up employee ownership and profit-sharing plans once the company is well established.

Mr. Gordon emphasizes that from the very beginning one of his major objectives, aside from developing new business, has been to keep costs at a minimum. He says he was very much influenced by a survey he made, before starting the agency, of successful and unsuccessful advertising and public relations agencies. The survey convinced him that one way to fail was to ignore the probability that an agency will experience periods in which business is slow. He believes if the managers choose to live high when times are good, they'll pay later when the business climate is less favorable. In order to maintain a close check on his finances, Mr. Gordon hired a professional accounting firm to provide monthly accounting reports and cash flow projections. Although he wanted to skimp wherever possible, he decided it would be foolish to eliminate the accountants who could best help him accomplish that objective.

The Gordon Public Relations Agency is unquestionably a success. Its president is an aggressive and frugal entrepreneur who took a good idea, carefully devised a business strategy, and with the help of highly qualified people developed it by hard work and by capitalizing on all available personal contacts and opportunities. Soon the firm will handle a little public relations work for itself: it will announce the opening of a new office in another large city.

15. Hale's Firstline Furniture Company

When he bought the Premium Furniture Company, Stuart Hale became the only black furniture retailer in Hunter, a city of about 500,000. Now, nearly 2 years later, Hale's Firstline Furniture Company is a profitable and growing operation.

Mr. Hale was born in 1930 in rural Arkansas. His formal education, in a small country school, terminated at the 10th grade. His father was a minister and his grandfather, whom young Stuart idolized, farmed 3,000 acres in the same part of the State. Stuart aspired to the independence and decisionmaking freedom of his grandfather.

At 22 years of age, Mr. Hale moved to Hunter and worked as a pipe layer for 2 years before he

was laid off. For the next 11 years he was a general repairman in an auto body shop. During 5 of these years, he also operated his collision repair business on a part-time basis. In 1967 he bought a billiard parlor, which he operated until 1969.

The Furniture Business

The Premium Furniture Company, located on a main thoroughfare five blocks from the center of Hunter, was in a residential and commercial area populated principally by low-income black and Puerto Rican families. The street is commerical and has many small retail businesses—jewelry shops, drug stores, liquor stores, and shoe stores. The building which had housed the Premium Furniture Company for decades was old and unattractive.

Mr. Hale was a long-time customer of Premium Furniture Company and had become good friends with Albert Goldman, the owner. In 1964, Mr. Hale went to work for Mr. Goldman on a part-time job in shipping and receiving. A short time later he was promoted to salesman. In the meantime Mr. Hale kept his own business, the auto repair shop and then the billiard parlor.

In 1968, Mr. Hale became a full-time salesman at the furniture store. He continued to operate his billiard parlor until 1969, when he sold it because of the increasing job requirements at Premium and the drug users who had begun to come to the billiard parlor. Mr. Hale was interested in doing something for his community and felt that the billiard parlor was not a positive contribution.

Mr. Hale's employer at Premium Furniture had by this time decided to sell out. The business was experiencing a slight decline and Mr. Goldman also had problems in his nonbusiness life.

Some Valuable Assistance

During their 5 years of association, Mr. Goldman had found that Mr. Hale was a very competent salesman. He began to take a special interest in the possibility of having Mr. Hale purchase the business. When initially approached by Mr. Goldman, Mr. Hale thought that the idea was far-fetched. He was skeptical that a black person with little collateral could borrow the large amount of money necessary to purchase the business. However, he was willing to try to obtain the required financing.

Mr. Hale sought the advice of two acquaintances, an attorney and an accountant. They indicated confidence in Mr. Hale's ability to handle the operation but cautioned him to explore the venture and its prospects thoroughly before deciding. Meanwhile Mr. Goldman began teaching Mr. Hale the essential aspects of the furniture business that he had not learned in his capacity as a salesman. In early 1969, Mr. Goldman took Mr. Hale with him to the Chicago furniture market in order to familiarize him with buying techniques and procedures. Mr. Goldman agreed to stay on as a part-time salesman and advisor should the sale and its financing be satisfactorily concluded.

Mr. Hale approached a recently formed nonprofit corporation—Hunter Development Corporation (HDC)—created to promote minority ownership of local business. HDC was enthusiastic about the proposal and decided to back the project; it took the proposal to a local bank and to the Small Business Administration. The estimate for total financing was \$150,000. Approximately \$55,000 was required to purchase Premium Furniture's inventory of furniture and accessories, and \$10,000 for the existing fixtures and equipment. Initial operating capital requirements were \$10,000. The remaining \$75,000 was for the purchase of accounts receivable belonging to Premium Furniture.

The help of HDC and Mr. Goldman proved invaluable, and to Mr. Hale's surprise the bank approved the application. The processing of the loan required about 3 months, but eventually all of the required funds were obtained. HDC, SBA, the local bank, Messrs. Goldman and Hale arrived at the following financing package: Mr. Hale would put up \$1,000 from his savings; the bank would lend him \$65,000 for 10 years at 8 percent, with a 90-percent SBA guarantee, and an additional \$75,000 at 8 percent secured by \$110,000 of accounts receivable; HDC would then grant a \$9,000 loan on a note subordinated to the bank's loan and secured by the personal liability of Mr. Hale and his wife.

Open for Business

On March 31, 1969, Premium Furniture Company became Hale's Firstline Furniture Company.

After many years of waiting, Stuart Hale finally had a substantial business of his own. At the time he was 40 years of age and the father of two children

Mr. Hale says that if Mr. Goldman had not decided to sell he would have eventually tried starting a smaller place of his own, perhaps one requiring less extensive outside financing. Premium Furniture had a successful year in 1968, reaching $150,000 in sales, and Mr. Hale decided that "if I can do it for another, I can do it for myself." He doubts that he would have considered other lines of business. By that time he was interested only in being his own boss in the retail furniture business. Mr. Hale was convinced that both the location and the business were good. He had conducted an in-store survey of Premium Furniture's customers and found that approximately 50 percent were Puerto Rican, 20 percent were white, and 30 percent were black. The store had an established clientele which was of utmost importance to Mr. Hale. He knew the store and the customers, and felt that Mr. Goldman's permanent customers would continue trading at the store after he purchased it. Although there were two major competitors in the city, neither was located close to his established clientele. Further, he was the only black furniture retailer in the city, and he believed that some black customers would buy from him primarily for that reason.

Mr. Hale projected first-year sales at $200,000, with no profit. Second-year sales were estimated to reach $250,000 with a profit of $12,500. Within 3 to 5 years, Mr. Hale calculated that the sales would climb to between $500,000 and $700,000 annually. He anticipated that after proving himself at Firstline, he would open a second store in Hunter and then start a furniture retail outlet in another city, possibly Washington, D.C.

At the time of opening, Mr. Hale foresaw only one significant problem. Because he was black, had only a small amount of personal equity in the business, and was unknown among the manufacturers and wholesalers, he anticipated difficulty in receiving supplier credit. He felt that since these suppliers had no experience in dealing with a black furniture retailer, they would be hesitant to extend the same terms to him as they would to a white businessman in a similar position. He realized that he would have to be meticulous in payment under any credit arrangement that he was able to secure. Furthermore, he intended to limit his buying to a few lines until he could establish a good credit rating among the suppliers. Finally, he decided he would send his financial statement to prospective suppliers to help establish his creditworthiness.

In his first year in business, Mr. Hale generated sales of $300,000—a full $100,000 more than he had projected. Encouraged by a first-year profit of $24,000, Mr. Hale increased his annual salary from $10,000 to $13,500.

Mr. Hale's apprehensions about securing lines of credit were not unfounded but proved less troublesome than he had anticipated. Within 9 months, Firstline Furniture had received a top rating of "1" from the credit reference firms that operate in the furniture business. Previous to that he had been refused credit by four or five suppliers. Now he can order from any he chooses. He attributes this to his perfect record of payment.

Mr. Hale changed some of the furniture lines that had been carried in the previous store. He introduced some higher priced lines and increased the inventory. He now carries essentially the same lines as his two major competitors and feels he is competitively weak only in that he does not have the capital with which to match their advertising.

The Second Year

During the course of the second year Mr. Hale added $25,000 in new debt in order to increase Firstline's inventory. The loan was arranged through the same bank that had provided the initial financing and was secured by the pledge of accounts receivable.

Mr. Hale says he is very selective in granting credit and that he limits any account to $1,000. He claims the extension of personal credit is a necessary part of the furniture business. He uses a credit bureau and information from other retail stores and says, "we generally get all the information that we can." Despite the precautions that he employs, collections are still a problem. However, he feels that his volume of repossessions is comparatively low and at an acceptable level for the retail furniture trade.

Sales for the second year now seem certain to reach $350,000, and profits are projected at

about $25,000. Mr. Hale explains that second-year profits will be depressed somewhat because of a burglary in which $6,000 worth of furniture was taken from a model home display. The insurance policy did not cover this loss because the furniture was not in the store.

Mr. Hale does not feel that his insurance coverage is adequate, and he blames this on his location. Specifically, he complains that theft coverage is very costly. In addition to fire and theft, his insurance package includes "key man," glass breakage, business interruption, liability, disability, and workman's compensation.

There are now eight full-time and five part-time employees at Hale's Firstline Furniture Store, an increase of four since Mr. Hale purchased the store. Mr. Hale himself works 50 hours per week as manager and salesman. There are two full-time truck drivers, one shipping and one receiving clerk, two office and clerical workers, and two full-time salesmen. In addition, there are three part-time salesmen and one part-time office worker. Finally, but of considerable significance, Mr. Goldman still works half time, selling furniture and advising Mr. Hale.

Changeovers in personnel initially presented a problem and it proved difficult to fill vacancies with competent employees. Mr. Hale has used a local community development organization as a source of employees and hired four "hard-core" unemployed persons that the group referred. Two were not able to satisfy the job requirements but two did well including a secretary who still works at the store.

All new sales personnel receive training consisting essentially of a 1-month preparation period during which the new employee familiarizes himself with the articles for sale and engages in role-playing as a salesman. The salesmen also attend periodic sales and product demonstration workshops sponsored by the furniture manufacturers.

Mr. Hale believes it is necessary to have an integrated sales force in order to sell to all racial groups in the community. Eight of his 13 employees are black, four are white, and one is a Spanish-speaking Puerto Rican. With one exception, all employees live in the ghetto area or on the borderline.

Mr. Hale is a member of several community and business organizations and is president of a local black business association. He believes that he is well accepted in the community because of his policy of selling good merchandise at fair prices. In addition, he feels that because of his knowledge and understanding of the problems of the ghetto residents, he has been able to provide them with advice and assistance, including helping some to establish credit with other merchants. He does feel, however, that a certain amount of resentment has developed in a few sectors of the black community since he became owner of the furniture store. Mr. Hale attributes this to jealousy and the lack of firm cohesiveness in the black community

A Forced Relocation

In mid-1971, Hale's Firstline Furniture will move to a new location. The move is necessitated by an urban renewal project which calls for demolition of the section in which the store is located. The new building has not yet been selected, but Mr. Hale hopes to find one about six blocks from the present location, in a borderline area between the ghetto and a higher income section. He views the move as an opportunity to upgrade the business by introducing him to additional customers. He considered a move to a suburban store, but decided against it at this time because it would require too much capital, and because the sales personnel would have to be much more knowledgeable and of greater competency to deal with the suburban customer.

Mr. Hale is very happy with the progress of Firstline Furniture. He is especially pleased that it has been able to succeed in spite of the high debt service requirements caused by the business' large initial indebtedness. Furthermore, he gains satisfaction from his and the company's ability to help people of low income. He feels he knows and understands the problems of the urban poor and is now in a position to deal with the problems.

Since 1969 Mr. Hale has attempted to expand his formal education with three business administration courses. He has completed a 13-week course at a local technical institute and a 26-week course at a community college. He is also currently finishing the first year of a 3-year business administration correspondence course offered by a large out-of-State university.

Mr. Hale considers that the most important factor contributing to his success is his 5½ years of experience in the same business which he eventually purchased. He recommends that others interested in starting a business venture should first obtain substantial experience in the same line and study the business carefully, before starting. He insists that if one does not understand it thoroughly, then he should not attempt it.

Stuart Hale seems to understand his business.

16. Blue Ribbon Bakery

George Fleming was born in 1922 in rural Georgia. When he was 2 years old his family moved to Fall City, a Southern city with a population of approximately 150,000. He dropped out of school in the sixth grade at the age of 14. For the next 7 years he worked as a laborer for several Fall City companies.

In 1942, Mr. Fleming was inducted into the Army where he was trained in cooking and baking. He served on active duty as a cook for the next 3 years. Leaving the service in 1945, Mr. Fleming returned to Fall City and to a job as a laborer.

Because of his desire for more independence and opportunities for his family, he decided to enter business for himself. He started his first venture in 1950, and since that time has always been self-employed.

Business Ventures

Mr. Fleming's first business venture was a cafe, from which he also operated an off-hours mobile snack facility. He was forced to close the cafe in 1956 because the building in which it was located was to be torn down. The cafe was small, but he says it did relatively well. Mr. Fleming immediately bought a second small cafe which he operated until 1964. However, he was again forced to close when the building in which this cafe was located was converted into a boarding house.

A small bakery shop became available at the time Mr. Fleming was leaving his second cafe, and he decided to change his line of business. In addition to the bakery, Mr. Fleming saw the new business as a base for his ongoing mobile snack and soft drink operation. He opened his new business in 1964, producing his own bakery goods for sale both in his new store and on his established mobile routes.

Mr. Fleming's bakery was open for 3 years, at the end of which time an urban renewal project forced its closure. For the loss of his business, the urban renewal authorities paid him $2,500, all but $600 of which went to pay existing debts. The urban renewal office then aided Mr. Fleming in obtaining finances for the reestablishment of his business in a new location. In the meantime Mr. Fleming continued his door-to-door snack and soft drink business, operating out of his home.

In early 1968, Mr. Fleming decided to open another cafe while he awaited financial assistance for relocating the bakery. He rented space at a new location, moved in the kitchen equipment that he had stored, and opened for business. The cafe did not do well, but Mr. Fleming persisted, hoping that the urban renewal authorities would secure a loan with which he could reestablish the bakery.

Another Chance

In mid-1968 a $10,000 loan was finally secured through a local bank, with a 90-percent guarantee provided by the Small Business Administration. The urban renewal office then suggested that Mr. Fleming establish his new bakery at a location it had found in a predominantly black residential area just six blocks from his former site. Mr. Fleming, however, declined because he believed the space available in the suggested building was insufficient to accommodate the operation he intended to establish. Instead, he located a larger—already equipped—bakery that, due to the owner's illness, had been vacant for 1 year.

Mr. Fleming's choice was in an integrated, but predominantly white, section of the city several miles from his previous place of business. The area was largely middle class and residential, but the bakery itself was located in a small commercial

zone which included retail shops, a bank, gas station, furniture store, and large drug store. One of the city's largest hospitals was about a block away.

In spite of the urban renewal authorities' suggestion that he would fare better in a location closer to his former business, Mr. Fleming rented the larger building in October 1968. The rent was $200 per month. He purchased the bakery equipment from the previous owner for $5,000, spent $2,000 on a truck for his mobile selling, and began to recondition the bakery for operation. To comply with city health regulations, Mr. Fleming hired a contractor to remodel the store. Although the required work was not extensive, delays in its completion required that Mr. Fleming postpone his opening almost 5 months (to March 1969). He was of course required to pay rent for the entire period of inactivity.

Mr. Fleming believed that the business, once open, would generate enough income to support his family of six. Mrs. Fleming was also to work full time in the bakery, as she had in all of her husband's businesses. Between the two of them, Mr. Fleming thought that they would be able to handle the business until a substantial trade was established. Their total draw from the business was to be about $7,000 a year, the amount that Mr. Fleming calculated that he and his family required for their personal needs. Although there were several other bakeries in the city, Mr. Fleming was confident that his new location and the good reputation earned with his previous bakery would enable him to succeed. He was confident that his products would be of high quality and his service good. He felt that this, coupled with the fact that his was to be the only black-owned bakery in the city, assured him of a solid sales base. In addition, he had been assured by the nearby university hospital and two colleges that they would purchase their institutional needs from him once he was able to satisfy their large volume requirements. Mr. Fleming's long-range plans were simply to make a success of the bakery and thereby achieve an adequate income for himself and his family. To him the only significant problem had been solved when the loan was approved and the money made available.

Open for Business

Blue Ribbon Bakery's initial sales were slow, amounting to only $240 the first month, $248 the second, and $269 the third. Having opened with only $1,000 in cash, Mr. Fleming was in trouble. His gross revenues could not cover his fixed costs. Rent and utilities alone came to over $300 per month. In addition, shortly after startup, Mr. Fleming had hired a part-time baker in order to free himself for selling from his mobile unit, and the baker's monthly wages averaged about $250. Added to these costs were the substantial monthly payments on the $10,000 bank loan.

With sales far below expected levels, Mr. Fleming tried a small amount of radio and newspaper advertising; even so, sales for July totaled only $250. Mr. Fleming began to miss payments on his utility bills and was unable to make payments on the loan. He went to several local banks to apply for a $500 loan to cover operating expenses, but was refused. He then applied to a finance company which also turned him down. In the meantime, Mr. Fleming was falling further behind in his payments, and there were no prospects for obtaining additional financing. With the final rejection from the finance company in August 1969, he closed the doors of Blue Ribbon Bakery.

Mr. Fleming advises that he never attempted to sell to the institutional customers that had assured him of their interest in his operations. Nor did he approach any of the food markets or other food service businesses that had expressed interest in making regular wholesale purchases. He says his limited inventory and capacity would have prevented him from adequately meeting the needs of these large businesses, and that it was important to him to undertake only those obligations he was confident he could handle.

The few customers that patronized Mr. Fleming's bakery were predominately white, as was the general population of the neighborhood, but he feels that most of the local residents declined to trade with him because he was black. The black customers from his previous bakery did not support him either. Some said that it was too far for them to drive. Others indicated they didn't know that he had opened.

Mr. Fleming's primary interest is simply to

provide for his family's basic needs. He and his wife have recently started another business, a small neighborhood grocery which they bought shortly after the bakery closed. After a year's operation the grocery's shelves are poorly stocked, and Mr. Fleming is not encouraged by the prospects for the future. He continues to sell bakery goods door to door, while Mrs. Fleming tends the store. Mr. Fleming says he has always been a hard working man. He is discouraged that a successful business has not been the reward for the long hours spent in his numerous ventures.

17. Clothes For Him

In February 1968, Russell Williams bought the men's clothing store in which he had been working for 8 years. He had managed the store for the 2 years previous to his purchase. "If I could do it for them, I could do it for myself and make out better financially," he explains. He had considered the idea before, with a cousin who preceded him as the store's manager. However, his cousin chose to buy a store in Michigan instead, at which time Mr. Williams took over as manager. His cousin's successful purchase reinforced his determination to have a store of his own. Two years later the white owners of the store Mr. Williams was managing decided to sell.

Mr. Williams was 30 years old at the time of purchase, married, and the father of two. He advises that he had not considered any other sort of business venture because he "didn't know anything else." Except for the 4 years he spent in the Air Force, the clothing store job was the only one he had held since graduating from high school.

After having his loan application denied by two commercial banks, Mr. Williams applied to the Small Business Administration for their financial assistance. He expected difficulty, however, because his cousin, whom he believed more qualified than himself, had been turned down by the SBA. Although he estimated that he needed about $40,000, Mr. Williams applied for a loan of $25,000, understanding that to be the maximum available under the SBA Economic Opportunity Loan program. A local minority business assistance organization helped him prepare the application.

The SBA approved a direct loan of $25,000 to be repaid over 10 years (following a 6-month's grace period) with interest at 5½ percent. The loan was secured by Mr. Williams and his wife's personal guarantee plus a lien on certain assets. To the SBA loan he added his own investment of $4,600, of which he borrowed $2,800 from relatives, for the initial capitalization totaling $29,600. He paid the purchase price of $6,000 to the previous owners, spent about $3,000 on additional furniture and fixtures, paid $15,000 as a down payment on an initial clothing inventory costing about $21,000, and spent another $1,000 on miscellaneous startup expenses. This left a cash surplus of about $4,600 to carry the business through any initial difficulties.

Mr. Williams recalls being troubled by two significant startup problems. First, even though he had managed the store before and personally knew some of the sales representatives, the clothing suppliers were reluctant to grant him credit. His only recourse was to pay for his inventory needs almost entirely by cash until he was sufficiently established to obtain credit. His second concern was related to the first and stemmed from an initial low clothing inventory. With a limited initial capitalization and an inability to purchase the bulk of his inventory on credit, he was able to obtain only about half the clothing stock he felt he needed. In time he hoped to expand his inventory. In the meantime, he closed off half of the store in order to avoid looking understocked.

Open for Business

Mr. Williams' store is located on Carver Street in what is basically an inner-city ghetto area of Bensen, an Eastern city of about 1 million population. As store manager he had tried to convince the store's owners to stock clothing aimed at the

more fashion-conscious local black customer, but he was only moderately successful. The business under the former ownership remained essentially a standard men's clothing store, carrying primarily the more conservative fashions. Once he was the owner, Mr. Williams changed this policy. He felt there was more money to be made by riding the crests of the new fashion waves. Consequently he stocked his shelves, hangers, and display windows with "high style" clothing, the current high quality fad fashions that appealed to the clothes-conscious portion of the black community. He renamed the store Clothes For Him.

As owner, Mr. Williams also layed off four of the store's six salesmen. He knew from experience that with a full-time owner/manager, which he intended to be, the store needed only two other salesmen. By working six 12-hour days himself, and having each salesman work a 52-hour week, he felt he could adequately cover the sales floor with substantially lower costs than had been incurred by the previous owners.

In its first 2 months, Clothes For Him equaled the sales recorded by the previous owners in the same 2-month period of the prior year. Mr. Williams was pleased but not impressed. From this beginning he expected business to pick up as word of the store's change in clothing style got around. He projected total sales of $300,000 for the first year.

Trouble on Carver Street

Immediately following the assassination of Dr. Martin Luther King, Jr., in April 1968, rioters looted and set afire the great majority of retail stores on Bensen's Carver Street. Clothes For Him suffered fire damage but could be restored. Insurance proceeds would cover these losses. It would take about 6 weeks to be back in business if Mr. Williams wanted to do so. He elected not to proceed immediately with the restoration.

Mr. Williams was uncertain about reopening on Carver Street. He considered the question for several months. The SBA willingly deferred payments on its loan during the period in which he deliberated. Finally, he concluded that the April riot was the product of an extraordinary event and not a trend for the future.

In mid-1968 Mr. Williams learned of a men's wear trade association program to assist minority individuals entering the men's retail clothing business. The association agreed to assist Mr. Williams, and subsequently gave him free professional architectural help to design the layout for his renovated store. It also used its contacts to obtain special extended credit terms from large clothing manufacturers who previously were reluctant to give credit to ghetto stores. Thus, unlike his earlier opening, Mr. Williams was able to start with an adequate inventory.

In October 1968, Clothes For Him reopened. It was the first business to reopen on Carver Street after the April riot. A few hours after closing on its reopening day the store was again looted and all of its merchandise was stolen.

Open Again

Insurance proceeds were again available to cover losses, and in November 1968 Clothes For Him again opened for business and stayed open. There were no further troubles similar to the two civil disturbances. The only crime-related misfortune since then has been a $125 loss to an armed robber. That loss was not covered by insurance as the insurance companies no longer provide coverage for Carver Street businesses against robbery, window breakage, or theft unless these happen during a riot. In fact, Mr. Williams had not been able to obtain any insurance coverage until he received assistance from an insurance placement facility established by the city after the April 1968 riots.

In November 1968, a few other Carver Street stores also reopened. Mr. Williams was grateful for this. He says that one retail store has a difficult time drawing customers out to do their weekly shopping. Nevertheless, approximately half the former retail sites were not reopened. The buildings remain fire-scarred with plywood-covered doors and windows, causing the area to look more like a former battleground than a shopping area.

Although sales did return to a respectable level, Clothes For Him never again was the gold mine that Mr. Williams once thought it would be. Sales for 1968 totaled only $50,000, as the business was closed for about 9½ months. In the second year, sales reached $245,000, below Mr. Williams' $300,000 goal, but nevertheless satisfying.

Given the troubles the area has seen, profits were "good."

Asked how he accounts for the business' reasonably good second year, Mr. Williams was unable to point to specifics. He used advertising and other sales-promotion techniques sparingly. Considerable credit must go to his accurate perception of the high demand for "high style" clothing by his clientele. Credit must also be given to the trade association program which has continued to provide Mr. Williams with ongoing technical and managerial assistance. Mr. Williams advises that he finds the program's assistance very valuable. They are in contact with him four or five times a month and provide specific recommendations on a wide variety of problems which range from style changes and inventory management to bookkeeping and supplier relationships.

In January 1970, Mr. Williams opened a second store, Clothes For Her—a woman's "high style" clothing shop—just a block from Clothes For Him. With sales at Clothes For Him holding satisfactorily, it wasn't necessary to seek any new loans. However, the SBA did assist by again deferring payments on the loan. Mr. Williams gives the second store much of his attention, but his wife manages the salesgirls and guides the fashion selections.

The Third Year

Although his third year in business started well enough, Mr. Williams soon ran into difficulties. First, two major credit card companies withdrew their services from the Carver Street commerical area. They claimed that the area had proved to be high risk because of improper or fraudulent use of their credit cards. Since approximately 20 percent of Mr. Williams' sales had been realized through these two credit facilities, the impact on his business was significant. Mr. Williams' "high style" clothing is somewhat expensive, and thus the availability of credit is important.

Additional difficulties in 1970 stemmed from the adverse effects of a steadily declining economy with rising unemployment. Sales suffered as consumer spending was reduced. Mr. Williams explains that, in his opinion, unemployment hits his customers the hardest because the low-income, low-skilled inner-city residents are generally laid off first.

With sales down somewhat, Mr. Williams found himself with a rising inventory. Since an overstocked inventory of "high style" clothing is potentially dangerous, Mr. Williams was concerned. "High style" fashion demand is very fragile and changes swiftly and sometimes unexpectedly. He quickly canceled some of his orders and put some merchandise on sale. This enabled him gradually to reduce the inventory.

By October 1970, with the buying season for winter clothing approaching, Mr. Williams felt that the immediate future had a promising outlook. He is less optimistic about the longer run outlook, however, and is trying to relocate his store outside the ghetto which has caused him so many problems. He notes that his sales have slowly but steadily declined since he reopened after the 1968 riots. The urban renewal plan for the area seems "stalled by politicians.". It now appears to Mr. Williams that it will be several years before anything substantive is done to restore the commercial vitality of the area. At the rate conditions are deteriorating on Carver Street, Mr. Williams does not believe his business could survive the waiting period.

Mr. Williams has no control over the economy, nor over the politicians' urban renewal plans. However, he has proved himself to be a competent manager in a difficult situation. If the area cannot support his business, he is confident of his ability to take his experience and skills to another, less troublesome section of the city.

18. Diversified Services, Incorporated

In 1952, Jeff Morris and his family moved to Bradley, a light industrial and commercial city with a population of about 750,000. Jeff was then 15 years old. He completed his high school education in Bradley, and his first job after graduation was with a company that specialized in the installation of floor covering. For 8 years Mr. Morris worked as an employee of that company. Then in 1965, he began his own business of subcontracting with local floor-covering firms. He quickly developed his operation into a profitable venture. Mr. Morris now says openly, "I was the best." He hoped to continue expanding and event' 'y to become an independent contractor. Des; .. his success, he decided in 1968 to accept an opportunity to become the owner-manager of an assembly and repair services business that was in its formative stages.

A New Company in the Ghetto

In early 1968, a black community development group in Bradley had begun making initial contacts with the local business community for the purpose of promoting the establishment of several businesses to be owned and operated by residents of the inner city. One result of the ensuing discussions was the founding of the Bradley Community Uplift Corporation (BCUC), an organization whose mission was to promote minority business ownership. A second consequence of the meetings between Bradley business interests and black community leaders was an agreement to establish an assembly and repair services business as their first inner-city project. A large national optical equipment manufacturing company agreed to provide the new venture with enough assembly work to assure a satisfactory level of first-year revenues. It would, in addition, furnish appropriate technical and managerial assistance prior to and during the initial period of operation.

The new company was incorporated as Diversified Services, and a board of directors was selected from the promoting groups. Immediately, BCUC and the board began looking for a qualified individual from the minority community to own and operate the new company. It was at that time that Jeff Morris became interested.

A friend, who was a member of the board, suggested that Mr. Morris contact BCUC and declare his candidacy for head of the new venture. The board was looking for an owner-manager with an educational background in business administration or a related field, as well as an appropriate amount of business experience. Mr. Morris felt that, although his business experience was probably adequate, the fact that his formal education had ended with high school would exclude him from the board's consideration. Nevertheless, encouraged by his friend, himself a successful businessman, Mr. Morris presented his application to the board and personally explained his background.

The board was impressed by Mr. Morris' experience and success in the floor covering business, as well as his confidence in his ability to deal with the responsibilities of the position under consideration. In the board's view, those factors overcame his lack of formal education in business, and within 4 weeks Jeff Morris was selected by the board as the man to sponsor as owner-manager of Diversified Services.

Expectations

Mr. Morris intended to keep his floor covering business operating on a part-time basis in order to assure himself an income equal to that he and his family of four had known previously. The board had set the initial salary of the manager at $1C 000 per year, which was approximately $2,000 less than Mr. Morris had been making. However, Mr. Morris felt that, over the long run, his opportunities might be greater in assembly and repair than in the floor covering business, since the latter was subject to the extreme fluctuations of the construction industry.

On the basis of the optical manufacturer's estimates, the board had projected first-year revenues at $120,000. It was felt that the optical assembly work would provide a base for the business, which could later expand into assembly and repair of other items for both commercial and household

use. Mr. Morris and the original promoters were confident that the operation would grow to become a substantial financial success and a major source of jobs for the unemployed of the inner city. The firm was to start with five full-time employees, all drawn from the unemployed ranks of Bradley's ghetto.

Preparing To Open

Even before Mr. Morris had become involved, arrangements for the initial financing of the venture had been concluded. A local bank agreed to lend $32,000, with interest at 7½ percent and repayment scheduled over a 10-year period. The loan was secured by Mr. and Mrs. Morris' personal guarantee and a lien on all equipment The Small Business Administration provided the bank with a 90-percent guarantee on its loan. BCUC advanced $7,000 on a loan subordinated to that of the bank. Mr. Morris' only investment was t, be in the form of services rendered prior to actual startup.

A realty company offered space at a minimal rate in a substantial building in order to help the new minority business venture. A 2-year lease was signed calling for a monthly rental of $240. The building was in a somewhat deteriorated area of the inner city, but Mr. Morris and others concluded that this would not have an ill effect on sales. The new company would be dealing directly with manufacturers, and customers would not be required to come to them.

Prior to opening, Mr. Morris participated in an 8-week training program sponsored by the optical equipment manufacturer. The training covered the technical aspects of optical equipment assembly and an introduction to related managerial procedures. The manufacturer also gave the initial five "hard core" employees instruction in optical equipment assembly.

In August 1968, Diversified Services opened for business. The company purchased $5,000 worth of assembly and testing equipment and spare parts worth about $600. The remodeling of the rented space cost $10,000. Other startup expenses were minimal, and the company started with an initial cash reserve of over $20,000.

Attempt To Diversify

From August to December 1968, total revenues amounted to $19,000, and the business incurred a net loss of $15,700. In view of the high initial expenses, this was considered a satisfactory performance.

In May 1969, Mr. Morris obtained through his own efforts a contract with a second optical equipment company for a small portion of its assembly work. Shortly thereafter an appliance equipment company, encouraged by one of the board directors, contracted with Diversified Services for the assembly of a transformer used in one of its units. Revenues for 1969 totaled $104,000, and a net profit of $6,000 was realized. In December 1969, Mr. Morris' salary was increased to $12,000 a year.

In May 1970, two more firms were added to Diversified Services' list of customers. Mr. Morris had mailed 700 advertisements to potential customers, and the local power company had responded and contracted for the repair of certain electrical components. Late a large computer manufacturer also contracted for a small amount of assembly work. However, no further businesses responded to Mr. Morris' sales efforts.

In spite of the increase in customers, Mr. Morris estimates that 80 percent of Diversified's revenues still come from the original sponsoring corporation. Assembly work for the appliance company accounts for about 10 percent, and the remaining three customers account for the balance.

Progress in Spite of Problems

Although Mr. Morris is pleased with the fact that Diversified Services' sales and profits are growing, he is far from satisfied. He feels that several specific problems have frustrated a full realization of Diversified's potential.

Work Flow—Mr. Morris believes that Diversified's continued dependence upon one major customer has increased operating costs and prevented him from providing stability of employment to the people he hires. At one point, during a period of peak demand from its major customer, Diversified's number of full-time employees grew to 20. However, by September 1970, when that customer's demand had ebbed, the number of full-time employees had declined to 15. Mr. Morris dislikes having to lay off employees when the work flow eases, and he has difficulty finding new em-

ployees when it again surges. Nevertheless, the work provided the other customers is not sufficient to bridge the gaps in the optical company's work requirements.

Employee Inefficiency—Mr. Morris advises that during the early stages of his business operation, his policy of hiring only the "hard core" brought significant difficulties. He says that "85 percent of the new employees didn't last more than a few months." Under these circumstances, he decided that his business could not be run entirely with low-quality labor. Accordingly, he raised the hourly wage and began looking for employees who were more likely to perform satisfactorily in their jobs. Although all of his employees are still from the inner city, he now considers only two of the 15 as being "hard core." Since he upgraded the quality of his work force, his assembly rejection rate has been pared from 20 percent to 2 percent.

Mr. Morris has been severely criticized by some community progress groups because of his change in hiring practices. He feels, however, that the change was justified in that it was necessitated by the hard economic realities of his business. Furthermore, he is aware that if he were to be forced out of business due to labor inefficiency, then neither he nor Diversified Services would be in a position to help anyone.

Training is conducted on the job and is the responsibility of one of Diversified's employees. The training in the technical aspects of assembly and repair is not difficult and requires only a few hours, plus on-the-job experience. Mr. Morris feels, however, that the real challenge and economic necessity is to instill in his employees the sense of responsibility and motivation that will insure that they are a productive part of the business.

Cost Analysis—Mr. Morris feels that his most pressing need is to renegotiate the per-unit rate Diversified receives from its major customer for assembling its equipment. The rate was established before Mr. Morris was involved with Diversified, and for some time he has felt it was too low. However, since he did not understand the cost accounting analysis which was used to determine the rate, he was unable to justify a rate renegotiation. He discussed the matter with BCUC, but found it of little help. Finally, he hired a consultant to undertake a complete cost analysis of the assembly and repair operation. The consultant explained the basis for the determination of the rate, and explained that he believed the cost of overhead first used as a basis for calculating the rate was underestimated by 50 percent. Mr. Morris now feels prepared to request a renegotiation of the rate in the detail and terms that will be meaningful and convincing to his customer. The experience convinced him of the need to obtain qualified accounting assistance on a continuing basis, and he recently hired an accountant to work on the books and cost analysis for 2 weeks of each month.

If the optical equipment assembly rate is renegotiated, Mr. Morris says he will then be able to pay his employees a wage more in keeping with his own concept of fair employment.

Personal Strains—Running Diversified Services has required Mr. Morris to work long hours, 7 days a week. Referring to his family life, Mr. Morris says that "the business damn near broke it up." First, there was little time to spend with the family. Second, Mr. Morris had to take a cut in income to enter the business. Finally, the uncertainties of the business often caused worry at home. Although the conflicting demands by family and business have not been resolved, Mr. Morris feels that he has been able to keep both family and business together through the most difficult period.

The Future

In mid-1970 Mr. Morris hired a shop foreman whom he pays $800 per month. The foreman is in charge of production, quality control, and maintenance, all responsibilities that previously were handled by Mr. Morris himself. He now notes that efficiency has improved substantially since he took on the supervisory assistance. He now has more time to devote to administrative matters and to the very important task of developing new customers for Diversified.

Jeff Morris believes that Diversified Services has come a long way in its 2 years of operation, and he realizes that he is in business today only because of the assistance provided by the original sponsoring company, BCUC, and his board of

directors. He is appreciative of their efforts, but feels restricted because of his initial dependence upon those groups.

He has not yet been able to diversify sales sufficiently to make the company truly viable and independent of its sponsors. In part, this is because he hasn't had the time to devote to finding new customers. Partly too, however, he feels that it is because Diversified's board of directors—appointed by the sponsoring organizations—is too conservative in its policies, and tends to restrict Diversified's expansion. If he can convince the board, Mr. Morris is confident that with the contacts he has made in the past 2 years and with the experience he has gained, he can diversify the operation to live up to the company's name.

19. Community Contractors, Incorporated

In late 1967 Henry Jackson decided that he wanted to build a contracting business specializing in remodeling, refurbishing, and renovating commercial and personal property in Carlton, a city with several large, light industrial companies and a population of about 500,000. For the past 3 years, on a part-time basis, he had been assisting his friend, Frank Washington, who owned a small contracting business. He had helped him establish his one-man firm for doing repair work in an apartment building Mr. Washington managed, and had assisted him from time to time with administrative matters. Based on this experience he had decided that contracting showed enough promise to warrant abandoning his planned career in engineering to start a new business—Community Contractors—with Mr. Washington.

Profile of Henry Jackson

Mr. Jackson was born in 1939, the son of a longshoreman. He studied mechanical engineering for 4 years at a large university. After college he accepted employment as a design draftsman with a Carlton engineering research company, where he worked for 2½ years. When this company went out of business, he went to work as a mechanical designer for a large business machine company. Following 2 years there, he worked in similar capacities for two other engineering companies, the first for 4 months, and the second for 1 year. Having made his decision to join Mr. Washington and establish Community Contractors, he left the engineering firm in March 1968, to work full time as president and co-owner of the new company. He says he decided to go into the venture to escape being "pigeon-holed" in engineering and to have the opportunity to earn a better living.

When Mr. Jackson became president of Community Contractors, he was 28 years old, married and the father of five children. He agreed to an annual salary of $10,000, but expected to draw additional compensation in the form of profit dividends by the second year. His business strategy at that time was to specialize in the remodeling and renovating contracting business. He believed Carlton's larger corporations, utilities, and financial institutions would be his major source of contracts. Although he expected competition from the area's large contracting firms, he felt Community Contractors could be successful in underbidding them by operating with a lower overhead. He projected revenues for the first year at $125,000 and for the second year at $600,000. He anticipated hard work and long hours but no significant problems.

Profile of Frank Washington

Mr. Washington was born in Florida. He attended school through the 10th grade and then quit to work full time on his father's farm. At age 22, he left home to go to Philadelphia, where he found a job as a shipping clerk for a printing company. Six years later he had the opportunity to move to Carlton, where he took over a deceased uncle's job as manager of the Madison Apartments.

As manager of Madison Apartments, Mr. Washington learned how to repair and renovate apartments and small dwellings. In addition to working for Madison, he bought two houses in disrepair and successfully renovated them. From this beginning, he decided to work full time in contracting.

At the time Community Contractors was formed, Mr. Washington was 36 years old, married, and the father of one child. His primary reasons for undertaking the business venture differed from those of his partner. He wanted to create better housing in Carlton's black community ("housing is the most visible element of poverty and decay in the ghetto, and I wanted to change the scenery"). He also wanted to provide jobs for the unemployed and needy. Further, with his limited education and training, Mr. Washington felt that self-employment represented the best opportunity for earning a decent livelihood.

Mr. Washington also perceived the new firm's business strategy somewhat differently from his partner. He felt that there was a good opportunity to contract for repair and renovation work in the ghetto communities of Carlton since the city's major contractors, who were white, apparently preferred not to work in the ghetto. He knew some additional work would come from the Madison Apartments, whose owner had assured him that he would give the new company repair and renovation work. Apart from these thoughts, he had no firm ideas as to exactly how Community Contractors would attract other customers.

Mr. Washington expected Community Contractors to earn revenues of about $150,000 the first year and $300,000 the second, with the business operating on a break-even basis for about a year before it started generating profits. He planned to keep his job managing the apartments for the free rent that it provided and to draw a $10,000 salary from the contracting business.

As he viewed the future business operation, Mr. Washington felt Community Contractors' biggest potential problem was that as a black firm it might have difficulty convincing white property owners and white suppliers to grant them impartial treatment.

Business Startup

In December 1967, Messrs. Jackson and Washington purchased two badly deteriorated adjoining buildings on Dalton Street, three-quarters of a mile from the center of the city. They made a minimal down payment and financed the balance of the $20,000 purchase price over 20 years. The larger and better of the two buildings was a dilapidated apartment house. The partners planned to renovate this building, locate their offices therein, and rent out the remainder. The smaller building was also to be made income producing, but only after the larger was completed. Initially the smaller building was used as an office.

With renovation work provided by Madison Apartments, Community Contractors was in business. In addition to the two partners, there were three other employees—an office assistant and two carpenters, both of whom were friends of Mr. Washington's. The partners divided the managerial functions between them. As president, Mr. Jackson agreed to take charge of all office operations, including business development, accounting, finance, billing, and office staffing. Mr. Washington was to be in charge of all field operations, supervising the work on all contracts, and assisting the president in contract bidding by providing estimates of time and materials required. They agreed that since each had 50 percent of the stock, all policy decisions would be made by mutual agreement. Their personal investment was about $2,000.

Financial Assistance

After unsuccessfully seeking financial assistance from local banks, Mr. Jackson made application to the Small Business Administration in February 1968. He requested a direct loan of $35,000, the minimum amount the partners agreed was necessary to permit the business to start with a satisfactory financial base. Shortly thereafter, Mr. Jackson read about the formation of a local nonprofit community development group called the Minority Community Development Corporation (MCDC), whose principal goal was to aid minorities to enter business. He approached MCDC who took up Community Contractors' cause and agreed to assist the company in negotiations with a local bank—The First Carlton Bank—and the SBA. At that time an abbreviated March 31, 1968, balance sheet for the firm showed total assets of $27,700, including current assets of $2,500, land $4,200,

buildings $17,700, machinery and equipment $1,200, and miscellaneous $2,100. Current liabilities totaled $5,700 plus a long-term mortgage debt of $17,900. The company's net worth was given as $4,100.

By June the First Carlton Bank and the SBA had approved a total loan package of $30,000, of which $25,000 was to come from a direct SBA loan, and $5,000 from a bank loan. The SBA loan had been limited to $25,000, the maximum amount available under its Economic Opportunity Loan program, in order to permit faster processing. The SBA loan carried interest at 5½ percent and had a 10-year repayment term. As security the SBA required the personal guarantees of the partners, a mortgage on the firm's physical assets, and life insurance policies on both partners. Terms on the $5,000 bank loan called for an annual interest rate of 7 percent and repayment over a 5-year term. As security the partners offered their personal signatures, the pledge of certain assets, and life insurance policies.

The First Carlton Bank disbursed its loan immediately, but it was 5 months (November) before the SBA loan funds were received. However, the First Carlton Bank provided interim financial assistance by lending the firm an additional $25,000. This was later repaid with the SBA funds. In late November MCDC lent Community Contractors $20,000, subordinating this loan to those of the SBA and the First Carlton Bank. The loan package totaled $50,000.

Business Operation

Mr. Jackson's efforts to obtain financing had been enhanced considerably by his successful marketing efforts. The first loan arrangements were accomplished primarily on the strength of a subcontract he had obtained from a larger company. Under this subcontract, Community Contractors was to do repair work on houses acquired for rental property by a civic group formed to promote housing for needy families in Carlton's inner city. Similarly, the borrowings of late 1968 were in part the result of Community Contractors' receipt of a 12-month contract from the Carlton city government to repair housing found in violation of the building code. Although his firm had been the highest of four bidders, Mr. Jackson advises that the contract was awarded to Community Contractors because the city felt that the other bids were unrealistically low. The role of MCDC in securing any of the contracts is uncertain.

The year 1969 started well, with work provided by the civic group, the Madison Apartments, and the city of Carlton. However, the contract with the city was by far the biggest. Work orders from the city poured in at a rate two to three times greater than the $125,000 yearly total Mr. Jackson had expected.

As business increased, the company hired a young project manager who proved to be very competent. The office and fieldwork forces grew considerably. Mr. Jackson hired his brother as billing clerk, three office girls, and an accountant to help with the administrative workload. Meanwhile, Mr. Washington hired a considerable amount of additional help to deal with the increased fieldwork, and by May the field force had reached a peak of about 50. Although the labor force was large, only a few employees were salaried since it was intended that the majority were to work on an "as needed" basis.

In spite of the large volume of business, Community Contractors soon found itself experiencing problems paying its bills and achieving a profitable operating position. MCDC provided assistance in the form of short-term loans, but the firm's debt climbed steadily to $37,000. At that point, although MCDC refused to make further loans, it did give further financial assistance by purchasing the company's accounts receivable. Here too, though, MCDC eventually reached a limit of about $50,000, which it felt should be the maximum amount invested in any one business that it was assisting. The First Carlton Bank then agreed to give further assistance by financing accounts receivable and providing additional small loans. It also hired Community Contractors to do renovative work in its branch offices. The company had to sell its receivables with recourse, however, and thus was not relieved of the financial obligation to the bank in the event its customers failed to pay. Yet, even with all of this assistance, Community Contractors' cash problems continued to mount, and as early as March 1969, Mr. Jackson mentioned the subject of still further financing to MCDC and to the First Carlton Bank.

Community Contractors' problems at this point apparently stemmed from a number of factors but

were in major part attributable to heavy labor expenses. Mr. Jackson says, and outsiders agree, that Mr. Washington was much too kind to his employees, especially at times when the firm simply could not afford to pay fixed salaries to a large number of field-force employees. Since its volume of business was unpredictable, the firm hired additional workers for the field force "as needed." Furthermore, the bulk of the work orders—the Carlton city projects—came in the form of small, individual repair jobs. One week there might be an excessive amount of work, and the next week there might be little or nothing. However, since Mr. Washington could not bring himself to lay off his men when the workload slackened, the company frequently ended up paying for a considerable amount of idle time, with two or three men assigned to jobs that one could have done.

In addition, Mr. Washington was apparently so much inclined to sympathize with the needs of his employees, and so predisposed to overlook their faults, that the company had a labor force burdened with unqualified and incompetent workers. Mr. Washington provided jobs, whenever possible, for unemployed friends, relatives, passers-by, and employment agency referrals. The practice seems to have been that once a man was hired, he was there to stay, regardless of his ability, attitude or the availability of work. Community Contractors had a "no fire policy."

This labor problem was heightened by difficulties inherent in the Carlton City contract. Community Contractors was given work orders by the city only after the owner of a building (found to be in violation of the building code) had been given a reasonable period of time in which to correct the fault. Thus, many of the firm's repair projects were done on order from the city, but against the wishes of the buildings' owners. At times Mr. Washington's workmen would arrive at the designated building only to be denied entrance either by its owner, or its occupants acting on direction from the owner. If no other project was in need of workers, their time was simply wasted.

Unwilling to lay off his employees, but mindful that they shouldn't be idle, Mr. Washington frequently had his men fill their free time by working on the company's small Dalton Street apartment building. However, the actual effort expended appears to have been minimal, since the building was still incomplete after incurring $40,000 in labor and material expenses. In late 1969 MCDC and the First Carlton Bank directed that no further expenditures be made on the company owned buildings.

Other factors also contributed in some measure to Community Contractors' problems. The city was slow in paying for its work. With only one man to oversee and personally examine the numerous projects, and to negotiate the payment owed to Community Contractors, the backlog of payments grew steadily. The firm apparently also had troubles caused by underestimating its bids. This was particularly harmful with fixed price work. In addition, the company suffered from the theft of building materials by a few of its employees. Finally, Mr. Washington says he believes Mr. Jackson overstaffed the office, neglected to bill customers promptly, and sometimes failed to give accurate or prompt estimates on contract bids.

Aware of Community Contractors' mounting problems, MCDC recommended that the company hire a qualified full-time accountant, Joseph Peters, to keep its books and provide information which would be helpful in dealing with the financial difficulties. Once hired, Mr. Peters produced an income statement and balance sheet as of July 31, 1969, which clearly showed the dimensions of the difficulties. For the first 7 months of 1969 the company recorded revenues totaling $189,000, but had direct costs of $162,900 and additional expenses of $66,700, for a 7-month net operating loss of $40,600. Major items listed under expenses included: officers' salaries (Jackson and Washington) $12,000; office salaries $15,500; payroll taxes $10,600; insurance $6,000; interest $4,100; temporary help $4,000; truck expenses $3,200; and officers' life insurance $1,600. The July 31 balance sheet is summarized on page 58.

In the 16 months since March 31, 1968, Community Contractors had suffered a decrease of $56,700 in its net worth, and the sum of its liabilities exceeded assets by $52,000. A portion of the offsetting growth in assets can be attributed to an inflated $65,000 cost evaluation of the Dalton Street properties, a result of accumulated credits for the nonproductive labor time earlier described. The company now owed the First Carlton Bank $64,000, MCDC $37,000, and others nearly $75,000 on obligations currently due; and

ASSETS

Cash	$ 1,900
Accounts Receivable (assigned)	61,600
Accounts Receivable (unassigned)	44,100
Inventory	40,000
Prepaid Insurance	3,900
Total Current Assets	$171,500
Net Equipment & Furnishings	10,900
Net Property & Improvements	65,800
Other Assets	800
Total Assets	**$249,000**

LIABILITIES & NET WORTH

Assigned Accounts Receivable	$ 81,600
Notes Payable (First Carlton Bank)	64,000
Notes Payable (MCDC)	37,000
Installment Notes	7,400
Trade Accounts Payable	38,700
Payroll Taxes Payable	28,800
Total Current Liabilities	$257,500
SBA Note Payable	24,300
Mortgages Payable	17,300
Installment Note	2,500
Total Long-Term Liabilities	$ 44,100
Total Liabilities	$301,600
Net Worth (deficit)	(52,600)
Total Liabilities & Net Worth	**$249,000**

it obviously had inadequate means and prospects for making these payments.

Deeper into the Mire

In mid-1969 Mr. Jackson, working with MCDC and the First Carlton Bank, made formal application to the SBA for additional financial assistance. Moreover, it was December before they received this aid, and during the interim things went from bad to worse.

The partners, MCDC, and the bank were aware of the business' many problems, but devised no effective means for resolving them. There were a number of confrontations between the two partners during which the problems were discussed, but no solutions of lasting effect came out of these exchanges. In September, Mr. Jackson met with MCDC for a frank discussion of the company's problems. Other than halting expenditures on the Dalton Street properties, the only substantive result of the meeting was a suggestion that one partner step down and accept a position subordinate to the other. Neither partner would do so. Community Contractors continued to operate at a loss, the bills fell further into arrears, and many suppliers cut off their credit to the company.

In late 1969 another problem became apparent, one that would prove fatal. The city refused to pay Community Contractors for much of its completed work. The company worked through December completing its city projects. When the final summing up occurred, it showed nearly 1,500 work projects undertaken at a billing of about $450,000. Of this amount approximately $155,000 had not been paid to Community Contractors.

The precise details of how this complex situation developed are not available. However, it appears that there were two major factors involved. First, it seems that the total cost of the repair work done under the year's contract greatly exceeded the city's budgeted amount. Second, the city questioned the amounts charged by Community Contractors. This apparently had happened regularly with billings to the city, but the amount in dispute was usually minimal. That was not the case now. In early 1970, the city offered to clear its account by paying $85,000 of the $155,000 Community Contractors demanded. The firm refused the offer and proceeded to sue the city for the entire sum. No one attempted to intervene in the partners' behalf.

The city's refusal to pay was the final blow to Community Contractors. In December the new loan from the SBA was concluded, but inasmuch as it had been designed only to refinance old debts, the company did not obtain any relief from its pressing cash problems. The new loan was for $50,000. Approximately $24,500 went to pay off the original SBA loan. Most of the balance went toward payment on the bank loans, with the remainder taken up in loan closing costs.

For the next 3 months the company struggled to stay alive. Without the city account, however, business fell by nearly 50 percent. Supplies were difficult to obtain, and the bills kept mounting. It became increasingly difficult to meet the weekly payroll, and there were foreclosure threats from the primary mortgage holder. Neither partner would relinquish control without leaving entirely, and yet neither could leave because both were liable for default on the company's financial obligations. Numerous meetings with MCDC and the First Carlton Bank produced no possibility of further financial assistance without a significant revamping of the company's managerial framework. Consideration was given to a plan whereby (1) a board of directors would be appointed subject to MCDC and First Carlton Bank's approval, (2) the board

would have full authority to determine all company policies, and (3) Joseph Peters would be named manager with complete power over personnel decisions. However, Mr. Jackson advises that the plan fell through when it was decided that it was impossible to avoid placing some liability for the company's financial indebtedness on the new board members.

Community Contractors stopped work in March 1970, and closed its doors in April. A balance sheet dated March 31, 1970, shows outstanding liabilities of $377,000, including $165,000 owed to the First Carlton Bank for nonpayment on assigned accounts receivable, $49,500 owed to the SBA, and $37,000 owed to MCDC. Henry Jackson and Frank Washington are personally liable for these debts.

20. Prize Liquor Store

Richard Edwards and Dave Torrell had been friends since childhood. Mr. Edwards had graduated from college in 1961 with a B.S. in business administration. He then served in the Army for 2 years. After his discharge he opened a restaurant in Charleston, S.C., which was his last duty station. He operated the restaurant for a year but closed it because the State licensing body refused to grant him permission to serve beer. Mr. Edwards subsequently returned to Medford, his birthplace, a large Eastern city with a substantial black community. He began teaching in Medford's public schools. In 1967 he left teaching and took a position with a community development group which was attempting to establish an office in Medford. Mr. Edwards worked with the organization for 1 year until he became disenchanted with its efforts to begin operations in the city.

Opportunity To Enter Business

Dave Torrell who operated a retail liquor store in Medford had attempted repeatedly to interest Mr. Edwards in a joint venture in the retail liquor business. In the summer of 1968 Mr. Edwards' disenchantment with his community development job coincided with his learning of the availability of a liquor store on Baxter Street, a riot-scarred area of the inner city.

The riots of April 1968 had taken the heaviest toll in the Baxter Street area, and the liquor store was one of the many commercial establishments that had been looted. The store, however, had not been set afire, and the owner was able to reopen in the summer of the same year. Despite reopening, he wanted to sell his business as soon as possible and move from the area. He felt that a white-owned operation would be subject to even greater risks than would black-owned businesses in the area. Dave Torrell approached Mr. Edwards with the proposition that they join together and buy the liquor store.

Mr. Edwards had been interested in re-entering the business world since his short-lived restaurant venture in Charleston. Because of his confidence in Mr. Torrell's knowledge of the retail liquor business, he decided that this was the right opportunity to do so. Mr. Edwards considered himself to be a hard worker, and as he decided, "If I work as hard for myself as for others, I'll be rich." He was interested in the liquor business only as a step to other ventures that would follow once a base had been established and profits were being generated. "I couldn't see myself just working in a liquor store."

The partners felt that since they were black they would not encounter the same problems as the prior owner or any other white person in business on Baxter Street. Mr. Edwards says, "I know my people; I wasn't afraid of the ghetto." Although the partners felt they were safer because they were of the same race as the area's residents, they discussed how they would react in case of a civil disturbance. Aside from the financial security that insurance might provide, the partners intended to protect their stock and the physical premises by

meeting any looting with force, including the use of firearms.

The business seemed a good one because of the absence of competition. There had been several liquor stores in the vicinity prior to the riots but none had reopened. Indeed most of the commercial establishments were still boarded up and would require some renovation. Although it was apparent that other liquor stores would open eventually, the two partners knew that for a period they would be the only such retail establishment.

The white owner of the store was averaging $8,000 per week in sales, and Mr. Edwards expected that he and his partner would start at that level and build up to $10,000 per week within the first 3 to 4 months. Once that level was reached they intended to turn active management of the store over to one of their employees. Both Edwards and Torrell were intending to work a 40-hour week initially and they, together with three full-time and two part-time employees, would constitute the sales staff. The three full-time employees all had worked for the prior owner.

Mr. Edwards became convinced that, given his partner's background, the prospects for the venture were excellent, and in August 1968 the two partners began to raise the funds required for the purchase of the business. Based upon conversations with the owner they estimated that $52,000 would be needed. As their personal investment, each of the partners was to raise $10,000. Mr. Edwards was able to borrow $5,000 from a friend and added that to $5,000 from his savings. Mr. Torrell also obtained $10,000. Thirty-two thousand dollars was the price of the owner's interest in his retail liquor license, his fixtures, and the goodwill. The owner accepted a "no down payment" purchase plan under which the partners would pay the full sum over a 10-year period, with interest at the rate of 5¼ percent. The liquor inventory had been allowed to decrease in size, and at the time of purchase was valued at only $15,000, which Torrell and Edwards paid for in cash. After spending $2,000 for remodeling, Prize Liquor Store opened with $3,000 cash on hand.

Initial Difficulties

Prize Liquor opened in October 1968. From the beginning, Mr. Edwards worked much longer hours than he had anticipated. Instead of 40 hours, he found that the operation required 70 hours of his time per week. Mr. Torrell, because of his other business interests, did not have a set schedule at the liquor store. Mr. Edwards estimates that at the outset his partner was averaging about 20 hours per week. In addition, Mr. Torrell's wife, who had worked in her husband's prior liquor store venture, worked from time to time. With part-time employees, the monthly payroll was close to $4,000. Rent was set at $350 per month, and the payment to the prior owner of the business was $344 per month. Utility payments totaled $100. It soon became apparent to the partners that the $30,000 per month in sales that they were approaching would not support the high fixed costs being incurred. After the fourth month the number of employees was reduced, and the monthly salary outlay was thereby lowered to $2,500.

In the meantime, the opening of two liquor stores within one block of Prize Liquor began to have an effect on sales. At the time of Prize's opening, a carryout and a TV repair shop were the only other businesses on the block to have reopened. The rest remained boarded up. But within a few weeks two other liquor stores, both owned by whites, had reinitiated operations. The new competition gradually cut monthly sales at Prize Liquor to $20,000.

Both of the competing stores became black-owned in the spring of 1969. Sales were further depressed when one of the two new owners initiated a price war. Prize Liquor had no choice but to reduce prices on a few of the faster moving brands, but generally could not afford to match its comeptitor's low prices.

The store had started with a minimal inventory of $15,000, about $8,000 short of what the partners thought their store actually required. Even that level proved difficult to maintain because of the initial problems of high fixed costs and lower than expected sales. The decreased inventory had a further depressing effect on liquor sales as the partners were not able to stock the brands or quantities needed. It became apparent to Mr. Edwards that his plan to spend 3 to 4 months in the store before turning it over to another was unrealistic.

To add to his other difficulties, Mr. Edwards' worries were increased by the fact that Prize Liquor Store's inventory was not covered by insurance. The partners had contacted 12 insurance companies, but not one was willing to provide coverage in that riot-scarred area of town.

In May 1969 the inventory and sales problems worsened when the firm was unable to make payments to some of the wholesale liquor suppliers. As a result, from that time on all purchases of liquor had to be made on a cash basis. This resulted in a further reduction in Prize Liquor's inventory and an acceleration of the sales decline.

Mr. Edwards stopped paying himself a salary and instead took only a limited amount to cover personal expenses. Mr. Torrell began to spend more time with the faltering venture.

A Final Attempt

Near the end of 1969 Mr. Edwards decided that without additional capital to stop its declining inventory, Prize Liquor Store would never recover. He concluded that if he could raise $15,000 to pay existing debts and increase the inventory, the business could be revived. He felt that he had gained the requisite experience and knowledge of the business to make it successful, given the proper infusion of capital. Before attempting this, however, he decided that the partnership would have to be terminated. Accordingly he offered Mr. Torrell the opportunity to either buy him out or leave the business himself. Mr. Torrell consented to being bought out, and an oral agreement was reached whereby he would relinquish his interest in return for Mr. Edwards' promise to pay, when the circumstances permitted, the amount Mr. Torrell had originally invested.

Mr. Edwards approached the Small Business Administration in early 1970 in order to seek their help in obtaining financing. The SBA had recently changed its policy that had prohibited its participation in the financing of retail liquor stores. He also asked several friends to consider becoming partners in the venture. However, his friends were reluctant because of the serious sales decline the business had experienced.

The negotiations with the SBA dragged on, and the business continued its decline, averaging only $2,000 to $3,000 in sales per week. Mr. Edwards drew no money from the business after January 1970. He laid off all his employees and began working the store by himself in a last attempt to accumulate funds to increase his inventory. His cash position became so critical that he was forced to buy liquor in partial cases. Since this resulted in the loss of his remaining discounts, he was forced to increase his prices. Sales dropped even further.

The SBA loan was still not settled by July 1970, and Mr. Edwards decided to let the business terminate. In August he discussed his precarious situation with the previous owner, and the two agreed that there was no alternative but for the previous owner to foreclose. Prize Liquor had only a $2,000 inventory stock at the time of foreclosure.

Mr. Edwards believes the main reason for Prize Liquor's failure was the poor management that he himself exhibited during the first 4 months of operation. He had been relying on the experience of his partner, who, he considers, did not put in sufficient time during the critical initial 4 months. The high cost of the beginning payroll, plus Mr. Edwards' inexperience, put the venture in a difficult position from the start. By the time he had gained the appropriate knowledge and experience, the venture could not have been salvaged without additional financing.

Mr. Edwards continues to have an interest in business but doubts that he will attempt another venture in the next few years. If he does, he doubts that it would be a partnership. He says that before entering a new venture he would have a full understanding of the requirements for success in that business. He does not believe he can afford another expensive on-the-job training course.

21. Data Services Unlimited

Neal Hart was born and raised in Belmont, where his father was a prominent citizen and president of a sizable real estate company. Mr. Hart graduated from an all-black college in 1956 with a bachelor's degree in business administration. After graduation he worked in New York for a real estate company, and then served for 2 years in the U.S. Army. Once out of the Army, he returned to New York where he worked 1 year for a large bank, and another year for a large electrical appliance manufacturer. In all these postcollege positions he was employed as a methods and systems analyst, a position which permitted him to become familiar with the application of computer technology to management information requirements. He attended numerous schools and institutes specializing in computer programing.

In 1969 Mr. Hart returned to Belmont to work for the real estate company at which his father was president. He stayed with the company, working with computer application and data processing services, until May 1969, when he left to devote full time to his own company. While at the real estate company he found time to earn a master's degree in business administration from a local college, to do a small amount of free lance data services consulting, and to write a number of magazine and textbook articles on automated data processing techniques.

As early as 1960 Mr. Hart began thinking of starting a data processing services company of his own. He felt qualified to establish such a company, and he was convinced that there was an unfilled need in the Belmont area for the services that it could offer. He felt frustrated with his career at the real estate company, for he believed his advancement to positions of greater responsibility and financial reward would always lag behind his abilities. The real estate company had been in existence for a long time, and its business and personnel policies were very conservative.

He discussed his idea of a data services company with his father and various other business acquaintances. They were not encouraging. However, he was encouraged by Lee Williams, a work acquaintance. Mr. Williams was a Phi Beta Kappa college graduate and was highly respected within the real estate company for his business capabilities. Like Mr. Hart, he was in his midthirties, black, and eager to try a new business venture. The two decided to start the company together.

The two men formulated a plan for their proposed venture. The company would offer a wide range of services related to automated data processing, including consulting on systems analysis and design, data preparation and processing, and professional training. It would start with consulting since this was a logical extension of the free lance work Mr. Hart had been doing on the side. Next, the company would purchase keypunch and data processing equipment and offer courses in automated data processing. This would provide the company with a source of data processing technicians and enable the partners to put the machines to work immediately, even before they were able to find commercial customers who would buy data preparation and processing services.

The partners incorporated their company, Data Services Unlimited (DSU), with Mr. Hart as president and Mr. Williams as executive vice president and treasurer. In addition to Hart and Williams, the board of directors included Hart's father and four other Belmont businessmen. All but two were black men.

Financing and Expectations

Mr. Hart felt it would take 2 to 3 years before DSU would be able to operate at a profit, and he believed therefore that the initial capitalization should be sufficient to carry the company for that period of time. After working out cash flow projections based upon a variety of possible outcomes, he decided DSU needed about $100,000 to start. Accordingly he visited the regional office of the Small Business Administration to discuss his company's needs and prospects. Encouraged that the SBA would give favorable consideration to a loan guarantee application from a commercial bank, he returned to Belmont and applied at the local black-owned bank, the United Belmont Bank. The loan was approved.

The stockholders invested $8,000, and the

United Belmont Bank advanced a loan of $95,000, for a total initial capitalization of $103,000. The bank loan carried a 10-year repayment, with interest at 8 percent. The SBA gave the bank a 90-percent repayment guarantee. Mr. Hart and Mr. Williams gave their personal guarantees, pledged all of the company's physical assets, and took out an insurance policy on Hart's life with the bank as beneficiary.

Mr. Hart did not expect significant sales results in the first year as neither he nor Mr. Williams would be giving DSU their full attention, and the services offered were to be added only one at a time. They made no sales and profit projections.

Mr. Hart expected that the students for the educational arm of the organization, called the Belmont School of Data Processing, would consist essentially of young high school graduates who did not intend to enter college. The customers for the data processing services, he anticipated, would be found among the larger companies in the area which already had a keypunch operation of their own, but nonetheless had overflow work that could be done by DSU. Mr. Hart had made an informal survey and was convinced there was an unfilled demand.

Mr. Hart knew there would be competition, but he felt DSU could overcome it. He believed the demand for training in data processing in the Belmont area was growing so fast that there was room for another educational institution to add to the three already in existence. With regard to data preparation and processing, the nearest competitors were in another city about 150 miles away, and thus DSU should be able to provide the Belmont companies with faster and more convenient service. Further, if necessary, Mr. Hart was prepared to charge somewhat less than his competitors. The only potential problem he foresaw was that as an essentially black-owned and managed firm, DSU might have some difficulty in acquiring the confidence of the white business community. However, he believed his well-known and highly regarded family name would help overcome this difficulty.

Getting Under Way

The company started operation from one of the director's personal offices in early 1968. It was expected that all the officers and directors would continue with their regular employment, working with DSU on evenings and weekends. Hart and Williams each expected to put in about 40 hours per week with DSU business. The others would work as needed. Either Hart or Williams, or both, planned to work for the company full time as soon as the volume of business justified it.

Mr. Hart soon found a sizable (two floors and a basement) semimodern brick building for rent. It was located about five blocks from the center of the city on a main arterial in one of the older commercial areas of Belmont. It provided easy access for prospective clients and students, and had an adequate parking lot. DSU signed a 1-year lease calling for a monthly rent of $500. The building's owners painted the interior, and DSU spent about $3,000 on remodeling.

Other early expenses totaled about $6,000, covering prepaid rent, insurance, furnishings, legal fees, etc. The automated data processing equipment was leased, and the initial stock and materials was minimal. There was $94,000 in cash left, and DSU earmarked $69,000 for future working capital expenditures, $15 000 for investment in certificates of deposit, and $10,000 for future equipment purchases.

In Full Operation

The Belmont School of Data Processing opened in September 1968. In November 1968 the company signed its first contract for keypunch services with the local office of a national business machine company. In February 1969 DSU added data processing to its list of services and obtained a contract for computer time billing. The initial training classes proved popular, and a variety of data processing courses were scheduled. Other local companies signed contracts for keypunch services. With the increasing workload, in May 1969 Mr. Hart left his position with the real estate company to give his full attention to DSU. Up to that time the company had had no full-time manager, only secretarial and part-time personnel. His salary was set at $1,300 per month. Later it was decided that he should also receive a 5-percent commission on any billings for which he was personally responsible.

As president, Mr. Hart devoted much of his time at this early stage to marketing. He promoted

the school's courses primarily through newspaper, radio, and TV advertising. The consulting, keypunch, and data processing operations were promoted almost entirely through Mr. Hart's personal contact with prospective customers. On a few occasions other board members assisted with their personal contacts. Mr. Hart found the market for DSU's services to be essentially as he had expected, although sales demand grew more slowly than hoped. He also found that the quality of DSU's services was comparable with that of its competitors. Prices were also comparable, as DSU used what Mr. Hart described as a standard markup of about 2 to 2½ times cost.

As business grew Mr. Hart found himself with less and less time to spend developing sales. He had to concern himself with directing the operation of the school, working on the service contracts, and administering the office. Financial administration required an especially large amount of his attention. Sales growth slowed, and Mr. Hart regretted that he had started without first obtaining a number of assurances of contracts.

He worked hard to pare expenses and force the company to operate without drawing on its cash reserves except as absolutely necessary. He spent a significant portion of each day staving off creditors and worrying over DSU's daily cash inflow and outflow. DSU had no internal system of accounting and no accountant, and this made Mr. Hart's budgeting job more difficult. There were no accounting records to provide a breakdown of the company's actual expenses. Operation of the Belmont School added to the financial problems as a number of the students proved to be poor credit risks. Many neglected to pay their fees once their courses were concluded. This particular problem was eliminated when the school adopted a "pay as you go" policy.

DSU has had a high personnel turnover at all levels of the organization, and Mr. Hart reports that finding and training qualified employees has been one of his most difficult problems. With a continuing shortage of personnel, Mr. Hart advises that he has regularly worked about 70 to 75 hours per week, a demanding schedule that would not have been possible had his wife not been exceptionally understanding.

The most significant of the personnel problems which have troubled Mr. Hart has been the shortage of managerial help. It had been planned that three other officer-directors were to help part time, but this did not work out. One was dropped from the board of directors at an early date. More importantly, in December 1969 DSU lost Lee Williams. He accepted the vice presidency of a sizable real estate company in Denver. Although he remains a director of DSU, he is of little assistance 2,000 miles away.

Results

With the difficulties above enumerated, DSU's sales and profit record thus far has not been particularly impressive. Sales for 1968, a short business year for DSU, were only $13,000, and the company incurred a loss of about $19,000. In 1969 sales reached $54,000, but DSU experienced a loss of $44,000. For the first 9 months of 1970, sales were $135,000, while expenses totaled about $165,000. However, the trend shows that the company improved its profitability throughout 1970, and Mr. Hart reports that DSU is now operating at the break-even point. The final results for the full 12 months of 1970 will show a net loss. However, with the company operating at a profit in the closing months of 1970, Mr. Hart projects that DSU will show a substantial net profit in 1971.

DSU's recent breakthrough to a profitable operating position seems to be explained by a number of factors. First, Mr. Hart hired a qualified assistant and personnel manager who previously had a small business of her own. She relieved him of a considerable amount of the administrative burden he previously shouldered alone. This in turn allowed him more time once again to pursue sales aggressively and expand the company's operations. He also hired an accountant who initiated a bookkeeping system which provided Mr. Hart with good cost information and a daily cash record. This permitted him to deal more easily and quickly with the cash flow difficulties and contract bidding problems.

Very crucial to DSU's eventual success was the fact that its backers did not lose heart despite a slow startup and early difficulties. Their analysis of the company's situation convinced them that there was a bright future over the long run. Therefore, they were willing to provide additional invest-

ment funds. During the difficult first 2 years they put an additional $25,000 in equity into the company. Had this additional equity money not been available, it is likely that DSU would have been forced to close its doors. Its high level of initial debt probably would have precluded it from obtaining further loans. As it turned out, however, DSU's prospects now look so good that the company is considering a private stock placement in 1971.

DSU's recent expansion has been impressive. The company now has five full-time salaried employees and about 40 hourly and part-time employees. The Belmont School of Data Processing now has a second training facility in another city, and it offers 20 different courses in the areas of data preparation, machine operation, programing, and systems design and analysis. Other operating divisions of DSU now include Computer Services, Data Preparation, Management Services, and Office Services.

Should DSU decide to accept additional investors in 1971, Mr. Hart intends to use the funds raised to further expand both the company's services and geographic market. In particular, he wants to expand DSU's computer services divis. As a step in that direction, DSU plans to obtain its own computer very shortly.

22. Lee's Continental Service

Alan Lee, born in 1930, came from a family background of farming in the South. Alan himself became a farmer after completing the 10th grade at a country training school and farmed for the next 10 years, from 1948 to 1958. Then, he "just got tired of plowing" and found a job washing airplanes at a U.S. military installation near his home. He was 28 years old at that time. He worked for the Government for the next 8 years. Then in 1965, because his mother was in need of care, he quit his job and moved to Huntington, a Southern city of about 100,000.

The Service Station Business

Mr. Lee enjoyed working on cars, and after he moved to Huntington, he was able to find work at a Continental service station. He worked there from 1965 until 1967 and rose to the position of assistant manager. In 1967 a service station belonging to another major oil company became available, and Mr. Lee was successful in negotiating for its purchase. After attending the company's school for dealers, he began operating the station.

The station was part of a shopping center which was 1 mile from the heart of the city, and on a principal highway leading out of the city. The center, located in a racially integrated area, was attractive and in good repair. In the 9 months from January to September 1968, Mr. Lee had sales of $93,000 and a net profit of $3,000.

A Better Opportunity

In addition to Mr. Lee's station, there were five other stations in or near the shopping center. One of the stations, a Continental, was offered for sale in mid-1969 when its owner was forced to close because of poor health. The Continental Oil Company remodeled the premises while it was trying to locate a dealer for the business.

Continental's local representative knew Mr. Lee because of his earlier 2 years of employment with the other Huntington Continental station. He contacted Mr. Lee and encouraged him to enter negotiations for the purchase.

According to Mr. Lee, the Continental station was in a better location than the one he was occupying. His station was not on the road itself, but in the shopping center. The Continental station was across the street from the center, on the heavily traveled highway. Currently being remodeled, the Continental station was in a better state of repair and had more work and bay space than Mr. Lee's. Thus, Mr. Lee felt that he had "everything to gain" by making the transfer. The new site was one of the better locations in the city.

Before deciding, Mr. Lee sought the advice of his friend—the owner of the Continental station where Mr. Lee had been an assistant manager—and was encouraged to make the change. The friend indicated to Mr. Lee that the prior owner had been doing well and that business should be even better following the remodeling. Mr. Lee then spoke to the prior owner, who confirmed that the location was a good one and that his business had been successful.

The competition that Mr. Lee would face in the new location would not be different from that which he faced at his current location. Across the street from the Continental station was a strong competitor, a white owner who had been in the same location for more than 20 years. However, Mr. Lee had successfully competed with him for the past year and was confident that he could do so at the proposed location. He believed that, given the proper location, the most effective means of promoting business was by providing courteous and reliable service. In his words, "a gas station depends on the man himself." "If you treat them right, they'll come back." Furthermore, Mr. Lee felt that he would be able to attract the regular customers that he had developed at his own gas station. He concedes that had the station not become available he would have been content to stay at the first location.

Convinced that it was an opportunity to step up in the service station business, Mr. Lee entered negotiations for the dealership of the newly remodled station. The oil company agreed to grant Mr. Lee the dealership, and he accepted.

Mr. Lee believed that as soon as he opened for business he would be generating profits. He projected sales of $15,000 per month, at the start. This was $5,000 above the monthly average of his own station, but Mr. Lee felt that the figure was realistic because of the advantages of the location. Based on the $15,000 in sales, he anticipated a personal draw of $1,100 per month. Eventually, he hoped, the station would reach monthly sales of $30,000. To make the business reach its potential Mr. Lee intended to work at least 12 hours per day and to hire the two full-time employees from his old station, as well as two part-time employees, who would each average 3 hours per day. Mr. Lee foresaw no difficulties. Indeed, he expected fewer problems than he had at his first station.

Mr. Lee calculated the financing requirements at about $6,000. He would provide $650 from his savings, as well as about $1,200 worth of tools that he had purchased for his first station. A brother agreed to loan $1,000, and the remainder would come from $2,800 worth of credit provided by the company for the initial load of gasoline.

Open for Business

Mr. Lee attended the Continental dealer's school, the second such school he had attended in a little over a year, and in October 1968 opened Lee's Continental Service.

Mr. Lee spent $1,500 on a small initial stock of goods, paid the required fees and costs for licenses, and opened the business with only $50 in cash.

During the first 2 months of operation, Lee's Continental Service averaged just over $10,000 per month in sales. Monthly gasoline sales, at 23,000 gallons, were not far from the 24,000 gallons that he had hoped for. However, total dollar sales were significantly below the $15,000 projected. After 6 months of operation, gasoline sales reached 25,000 gallons per month. Nevertheless, total dollar sales remained substantially below the $15,000 level. Mr. Lee was unable to attract sufficient repair work or to sell enough accessories to reach his sales goal.

Maintenance of a proper inventory was very important to Mr. Lee's competitive position. Both the station across the street and his own relied upon courtesy to keep customers coming back. However, courtesy by itself wasn't sufficient to hold, much less expand, the trade. All too often Mr. Lee had to turn customers away because of the inability to provide a requested item from his inadequate inventory.

The Decline

In January, sales at Lee's Continental dropped below $10,000, to $9,700, and in February sales were but $7,200. In March, they registered a slight increase to $8,600. In that month it became apparent to Mr. Lee that his low amount of working capital would have to be increased if the inventory was to be brought up to the appropriate level.

Because of personal preference and because of his inability to buy on credit, Mr. Lee had always paid cash for his purchases. His inventory management was of the simplest kind—"When I had money, I bought."

Meanwhile, Mr. Lee began to experience problems because he had been extended credit on a personal basis for repair work. Credit services were provided through several credit card systems in addition to that provided by the Continental Oil Company. Nevertheless, Mr. Lee also made sales on personal credit to some customers. He soon discovered that the extension of personal credit further hurt his cash position, as payments were often delayed beyond the time in which credit card sales are reimbursed. Additionally, a substantial amount of the money owed him for repair work proved uncollectable. Mr. Lee also lost the patronage of those customers to whom he had extended personal credit, but who had not paid. Because of their outstanding bills with Mr. Lee, they began trading elsewhere rather than be required to face him and explain why they had not paid.

In March 1969 Mr. Lee approached a local bank in an attempt to secure a $5,000 loan. The bank refused the loan because of Mr. Lee's lack of collateral. A short while later, he received a similar response from a second bank. In the meantime, monthly sales remained under the $10,000 level, with the 3 months from April to June registering sales of $8,600, $7,900, and $7,700.

A Chance for New Money

In mid-1969 Mr. Lee was approached by the Huntington Business Development Council (HBDC), a local organization formed to promote minority ownership of business. With its help he prepared an application to a local bank and the Small Business Administration for a loan of $7,000. The bank agreed to grant the loan provided it received an SBA 90-percent repayment guarantee. The appropriate application was then sent to the Small Business Administration.

In the fall the SBA returned the application to Mr. Lee for certain corrections in form. Both the bank and the SBA, however, had by that time agreed in principle to make the loan of $7,000. Having a tentative approval of that amount, it was decided by the assistance organization and Mr. Lee, with the bank's concurrence, to increase the request to $10,000.

Mr. Lee, in an attempt to keep the business going until the loan was approved, reduced the number of his employees by laying off one part-time and one full-time man. This cut his expenses by $100 per week. Over the life of the business he had had significant problems finding and retaining qualified employees. Employees generally were located through friends or acquaintances and all had had previous experience in the service station business. Nevertheless, Mr. Lee was forced to fire two for taking money and materials, and others because their abilities were neither those that the station required nor those that they had indicated upon applying for the position. The problem of finding qualified mechanics was especially critical since a service station's profits largely depend upon the revenues from repair work. Absenteeism and tardiness were also frequent problems with several of the employees.

Toward the year's end, the SBA refused the revised application for the loan because Mr. Lee's collateral was insufficient to cover the increased amount. The local assistance organization suggested to Mr. Lee that he resubmit a loan application for the previous amount of $7,000. Mr. Lee, who by that time had been negotiating more than 9 months for a loan, declined. As he now says, "he was tired of fussing with it."

The End

Monthly sales for the last half of the year did not top $7,000, and for one of the months dropped to under $3,000.

Because of his lack of working capital, Mr. Lee began to use withholding taxes to pay current debts. Consequently, prior to the end of 1969, he had an outstanding debt to the Internal Revenue Service of over $3,000. Bills became increasingly difficult to pay, and eventually Mr. Lee was forced to obtain refinancing for a wrecker that he had purchased shortly after opening.

Mr. Lee managed to keep the station open for a few more months, but in June 1970 he closed and moved his equipment to a garage in an old building that once had served as a gas station. He now

has a repair shop in which he does motor overhauls and body work. He says that unless he obtains sufficient initial financing, he will not return to the gas station business.

23. Davis' Quality Carryout

Haywood Davis was born in North Carolina in 1906. In 1925 he began his first business venture, a refreshment stand in Philadelphia. He sold the business, which he says was a success, in 1929. Forty years later he opened his second business operation, a food service named Davis' Quality Carryout, in Kingsville, a Northern city of approximately 550,000 population. In between those two ventures Mr. Davis became a master chef, and by the time he opened the carryout in 1969, he was considered to be one of the most experienced chefs in town.

Mr. Davis has been a cook and chef ever since leaving school after the ninth grade. He was the youngest chef/cook on the New York Central Railroad in days when some of the finest cuisine of the country was to be found in the railroad dining car. After leaving the railroad, he began a long career of preparing fine foods in restaurants and private households of Kingsville. From 1958 to 1962 he was assistant head chef at one of Kingsville's most frequented dining spots. In 1962 he became head chef at an equally popular and elegant restaurant outside of the city.

Mr. Davis, in the early 1960's, decided that he was ready to return to the world of business after a 40-year absence. He was confident that his solidly established reputation as a chef would insure a good start for a venture. After considering the alternatives, Mr. Davis decided to enter the retail food business with his own carryout shop. In addition to carryout food service, Mr. Davis planned that the new business venture would be a base of operation for the preparation and marketing of salad dressings and other specialty items that he had developed during his long career. In 1963 he began preparing several such items at home and marketing them on a small scale. For the next 6 years Mr. Davis looked for the opportunity to open his carryout, but he was precluded from doing so by his lack of capital and the general unavailability of other sources of financing for minority persons.

Finding the Funds

In 1968 a local group was formed for the purpose of promoting the entry of blacks and other minority group members into the business world. The organization, called the Kingsville Minority Business Corporation (KMBC), began providing assistance to several black businesses in mid-1968.

Learning of this possibility in the fall of 1968, Mr. Davis approached KMBC and with their advice and assistance applied to a local bank for a loan of $49,000. The bank was reluctant to grant such a sizable loan because of Mr. Davis' advanced age of 64, his relatively high fixed monthly obligations of over $250, and his record of minor difficulties with personal finances despite a yearly income of $10,000. However, in early 1969 the bank tentatively agreed to a loan of $24,000. The loan was to carry a 90-percent repayment guarantee from the Small Business Administration. Terms of the loan called for repayment over a 10-year period at the rate of $285 per month, including interest of 7½ percent. As part of the security requirements the bank and the SBA requested that an insurance policy be taken out on Mr. Davis' life. In addition to arranging the bank financing, KMBC agreed to provide $4,000 on a loan subordinated to the bank's. A private investor found by Mr. Davis agreed to provide $2,000. The total loan package was readied for approval pending the purchase of an appropriate amount of life insurance. Mr. Davis invested $2,000.

Because of Mr. Davis' age, the purchase of an insurance policy on his life proved difficult. The applicable premiums were costly and would have constituted a significant burden for the new busi-

ness. KMBC volunteered to assist in finding a policy at a reasonable cost. Final approval of the loan was delayed until the required coverage could be obtained.

The Location Selection

While the loan and insurance negotiations were proceeding, Mr. Davis selected a location for his carryout business on the vacant first floor of a two-story brick building. It was on a main arterial in the heart of a Kingsville ghetto. Many commercial establishments were located on either side of the heavily traveled street, and the building was located only one block from one public high school and four blocks from a second. Mr. Davis believed the business could be sustained by the high school trade alone. He did not fear competition from the other local carryout, which sold only fried chicken. Mr. Davis intended to sell a wide variety of items, including the only foot-long hot dog in Kingsville, and what he considered to be a delicious pepper steak. Aside from the local and high school trade, Mr. Davis believed that his reputation in the city would attract people to his carryout.

The bank supported Mr. Davis' choice of location, stating in a letter to KMBC that "the location of the restaurant appears very good, with virtually no competition in the surrounding area." Mr. Davis rented the first floor of the building in early 1969.

Preparations To Open

Two months and $500 in rental payments later, the $28,000 bank-KMBC-SBA loan package was finally approved. A life insurance company had made an effort to arrive at an agreement that might be acceptable, but the premium was still prohibitively high. With KMBC's urging, the bank and SBA finally dropped the life insurance requirement.

The building required extensive repairs and remodeling to make it suitable for the operation that Mr. Davis intended. The estimated cost of work to be done, as submitted in the original proposal and the loan application, was $8,000. Nevertheless, over the next 5 months Mr. Davis invested over $15,000 in putting the building in the condition that he desired. In addition, he paid another $1,250 in rent while waiting for the work to be completed. Other necessary expenses included an investment of $7,000 in kitchen equipment and the purchase of materials, supplies, and an initial stock of food goods. Mr. Davis was left with $2,500 in cash at the time of opening.

Mr. Davis anticipated an expansion of his operation within a short time by opening a second carryout. For the longer run he envisioned a chain of franchised carryouts. He also believed his carryouts would help in the sale of his dressings and sauces which had come to be the trademarks of his cooking.

With the help of a large restaurant that donated its services in planning the venture, Mr. Davis projected first year sales at $100,000. Twenty-five percent of that amount was projected to come from the wholesale marketing of the dressings and sauces. No profit was expected the first year, but Mr. Davis did set a $200 per week salary for himself.

Mr. Davis and his wife intended to provide most of the labor for the venture. Each intended to put in up to 16 hours a day, which was the amount of time they estimated would be necessary to get the business off the ground. In addition, their daughter was to work 40 hours per week. Finally, one part-time employee was to be hired for weekends.

Open for Business

Davis' Quality Carryout finally opened in August 1969, 7 months after renting the building. Sales during the first few weeks, although under the estimates, were good, at times reaching $200 a day. However, they declined steadily during the fall of 1969, and it became apparent that the high school trade was insufficient to support the venture. Business was very much tied to the weather, and sales vanished with inclement weather as the students chose to eat in the school cafeterias. Indeed, Mr. Davis considers that his principal source of competition was the schools' food service facilities.

The trade from outside the immediate area did not develop as anticipated. There were no parking facilities other than a limited number of spaces located on the street. Additionally, Mr. Davis feels that people who might have been his customers were discouraged by their fear of the shop's ghetto

location. Further, Mr. Davis was never able to develop the wholesale dressing and sauce portion of the business beyond the small scale that he had achieved previously with his home-based operation.

Mr. Davis says that he "tried everything" to increase sales. He had been listed in the yellow pages of the telephone directory, and he began to advertise in the newspaper and on radio. Later he offered specials on certain menu items. He asked for advice from KMBC, but they were unable to provide any solutions.

Overhead expenses proved high, with rent at $250 per month and utilities at about $300. Monthly salaries were set at a total of $1,300 for Mr. Davis, his daughter, and the weekend helper, although Mr. Davis at no time drew the full amount of his $800 share. In addition, of course, there were large monthly loan payments to meet.

As business declined and working capital dwindled, the sales problem was compounded by Mr. Davis' inability to maintain sufficient quantities of food to be used in preparation of all items on the menu. Furthermore, he was unable to take advantage of wholesale buying.

Business Failure

In early 1970, insufficient sales caused Mr. Davis to miss payments on some of his obligations. He returned to the bank, and with KMBC's help he was granted an additional $4,000 as a short-term loan. Most of the proceeds from the loan went to cover Mr. Davis' existing debts. Shortly thereafter, KMBC suggested to Mr. Davis that he sell the business. Although one individual did attempt to purchase the carryout, it developed that he could not raise the required capital.

In March 1970, 8 months after opening for business, Mr. Davis was forced to close the doors of Davis' Quality Carryout.

Mr. Davis now recognizes three mistakes which he thinks led to the closing of the business. The first was his dependence on the high school trade to support a business with high fixed costs. Mr. Davis feels that the business could have been rescued by picking it up and putting it down in another area. Finally, preopening expenses—rent and preparation of the building—had reduced his available cash to a critically low level, permitting no leeway for startup difficulties.

Although still in debt, Mr. Davis would like to attempt another business venture, possibly a catering service. He is also considering selling the recipes to his sauces and dressings. In the meantime, Haywood Davis is once again preparing fine foods as head chef in one of Kingsville's better dining establishments.

24. Conner Photocoloring

Nancy Conner was born in Wakefield, a Southern city of 100,000. She left high school after completing the 11th grade, and for the next 7 years held several jobs as a wig stylist and beauty shop attendant. In 1966 Miss Conner, then 23 years old, began work as a packer in the shipping department of the local office of a national photographic company.

Among the company's products were oil colored portraits. The oil coloring process consisted of using oils to provide background and highlights to photographs. The company contracted for oil coloring on a piecework basis with individuals in Wakefield and other cities of the State. Viewing this as an interesting activity and possible means of increasing her income, Miss Conner learned the basic skills from a friend. In the fall of 1967 she became one of several individuals contracted by the company for the oil coloring piecework. Miss Conner continued to work her regular shift as a packer and did the oil coloring on her own time at home.

Decision To Start a Small Business

The photographic work of the company was tied to the high school and college portrait market. The demand in that market was seasonal, with the greatest period of activity coming from September

to June when the schools were in session. During the 1967-68 school year, the demand for Miss Conner's oil coloring services exceeded the time she could spare on a part-time basis. Her sister encouraged her to leave the company and devote full time to her own small business of photocoloring. To help her do so, Miss Conner's sister informed her of the activities of the Wakefield Business Development Office (WBDO), a new organization formed specifically for the purpose of helping minority individuals to enter business.

With that possibility in mind, Miss Conner, in the summer of 1968, took a 1-week course in oil coloring at a local technical institute. In the fall she decided to quit her regular job and start a photocoloring business.

Miss Conner had no background in business. In fact she did not view her self-employment undertaking as a business venture in the usual sense. Rather, she was responding to what she viewed as an opportunity to better her economic status. She calculated that she could earn more doing photocoloring full time in her home than as an hourly wage employee in the photographic company's packing department.

Financing and Expectations

During the summer of 1968 Miss Conner conferred with WBDO. They were encouraging and offered assistance in organizing the business and in securing the initial financing.

Miss Conner had attempted to obtain a bank loan, but was turned down because of her lack of business experience and collateral. WBDO suggested that she try to secure a direct loan from the Small Business Administration, and it helped her prepare an application for $2,000. An SBA loan for this amount, with repayment scheduled over a 5-year period, was approved in the fall of 1968.

Miss Conner invested about $1,000 in a drawing table, lights, and oils to supplement the limited materials left from her part-time photocoloring work. She had $1,000 remaining as an initial cash reserve.

WBDO also assisted Miss Conner by helping her reach an agreement with her previous employer wherein he promised to su[illegible] her, during most of the school year, with 1[illegible] to 150 prints for coloring per week.

Miss Conner was also promised work by a black photographer who had just established his own small photographic studio: He indicated that he would try to provide up to 75 prints per week. Miss Conner believed she would also be able to obtain a small amount of business arising from the summer wedding trade. This would be important to sustain the operation during the slack period when the schools were in recess.

Since the business was to operate out of Miss Conner's home and she was to be the only employee, fixed expenses would be insignificant. She intended to put in the time required to complete all the work orders that she might receive, and she estimated that this would amount to a minimum of 40 hours per week.

Miss Conner anticipated no significant problems in relation to the operation of the business. Although other individuals were providing the same oil coloring service, her experience with the part-time work led her to believe that there was enough work for everyone. During the previous year she had demonstrated that the quality of her work was competitive. There was no competition on price as standard rates were set by the company. Prices for photocoloring ranged from $1.00 to $1.50 per print, depending upon the size of the photograph. It was calculated that revenues for Miss Conner's first year would reach $6,000. Costs would be minimal, approximately $200 for material. Thus she expected to be able to retain, after loan payments, approximately $5,000 in salary and profits.

Business Failure

In November 1968 Nancy Conner opened for business as Conner Photocoloring. The photographic company began supplying her with prints, but in lesser quantities than had been anticipated. The black-owned photographic studio was unable to supply her with any regular orders. In fact, that business itself failed shortly after opening. Conner Photocoloring's sales for November and December 1968 totaled $900.

Miss Conner attempted unsuccessfully to solicit new business from photographers and photographic studios in Wakefield and in neighboring communities. She sent an initial letter of introduction, and then placed a followup telephone call.

She concedes that she was probably not an effective saleswoman. None of the individuals or studios contacted were willing to contract with her for her photocoloring services.

Conner Photocoloring was left totally dependent upon the piecework supplied by Miss Conner's former employer. Miss Conner feels certain that the company provided her with all the work that it could. However, its work orders dropped steadily. The problem apparently stemmed from the fact that the demand for oil colored portraits had diminished drastically.

Gross receipts for the first 6 months of 1969 were only $1,400. Expenses were $300, excluding Miss Conner's draw.

Miss Conner ascribes the lack of sales to a change in taste among the purchasers of photographic portraits. Although oil colored portraits were much in demand when she began her coloring work on a part-time basis, within 2 years that demand had given way to a preference for natural color photographs. She feels certain that the photographic company would have honored its promise to provide her with work had its oil portrait business remained stable.

Sales during the summer of 1969 were negligible, and in September Miss Conner concluded that she could not live on the income her business was producing. She went to work as a dark room assistant at a photographic studio.

Despite its brevity, Miss Conner says she found her attempt at business enjoyable. Her one regret is that she attempted the venture with borrowed money and therefore now finds herself still required to make the monthly payments on her SBA loan.

25. Eastside Pharmacy

James Fields and Leon Marshall are pharmacists. They are now 37 and 48 years old, respectively. Both are married and have families.

In the late 1950's both came to Conner, an Eastern industrial city with a population of 400,000. They met and became friends while working for the Thomas Drug Company. Thomas was a large retail drugstore chain with outlets throughout the city. Both men did well as company employees. By the middle 1960's Mr. Fields had progressed to the position of manager in one of the stores. Nevertheless, both Mr. Fields and Mr. Marshall began to face up to the reality that they had gone as far as they could as employees.

Neither Mr. Fields nor Mr. Marshall came from families with business backgrounds. They had no friends or acquaintances in business to provide them with insight, advice, or encouragement about the business world. However, as Mr. Fields expressed it, "the object of every pharmacist who ever graduates is to have his own pharmacy." Mr. Marshall felt that even as a registered pharmacist there would be no further advancement for him in a white-owned firm.

Opportunity

Although the men thought about and discussed a partnership as early as 1966, it was not until 1969 that a specific opportunity to start their own drugstore presented itself. At that time Messrs. Fields and Marshall learned of the death of the owner of a drugstore located in a lower middle income area about 1 mile from the center of the city. The drugstore had been reasonably successful and drew its trade substantially from the neighborhood residents. Although the men had planned eventually to open a new store in another area which had just undergone a renewal project, they concluded that the opportunity to buy an existing business was worth exploring.

The partners learned that the location they were now considering was incorporated into urban renewal projects to be initiated within the coming year. However, upon investigating the extent of the renewal plans, they concluded that their proposed operation could absorb the drop in sales that would result from the dislocation of families who normally would patronize the pharmacy. They assumed that the area's population would return

to its previous level after completion of the construction phase of the project. If they could hold out in the interim, the difficult times would be over.

The closest competing pharmacy was seven blocks away. Two other pharmacies were within 10 blocks. Nevertheless, the partners felt that the established trade of the pharmacy minimized the problem of competition. Furthermore, it was their judgment that competition was normal in the retail pharmacy and drugstore trade, and that there was enough business for all the stores on that side of town. The only other black-owned pharmacy in the city was on the other side of the metropolitan area.

Finally, the partners checked the financial records of the deceased pharmacist. The examination confirmed their belief that the drugstore could be successful. They concluded that, even with the disruption caused by the urban renewal project, first-year sales could reach $250,000 and produce a small profit of $3,000. They estimated that this volume of business would be sufficient to allow a salary of $13,000 for each partner.

Having considered the important aspects of the drugstore and its location, the partners approached the deceased man's family with an offer to buy the business. The family accepted.

Getting Started

In order to obtain financing for their venture, the partners approached a local organization, Minority Business Promotion Corporation (MBPC), which had been established to aid minorities achieve a greater share of business ownership. MBPC accepted the partners' application for assistance and agreed to help locate and arrange the necessary initial financing.

The prior owner's family had agreed to a price of $25,000 for the building and land, and an additional $25,000 for the existing inventory, fixtures, and good will. MBPC and the partners contacted a local bank and the Small Business Administration, setting fourth their proposal. Eighteen months after their initial contact wih MBPC, the partners' loan application was approved. The bank agreed to a 10-year loan of $36,000, with interest of 9½ percent. The SBA provided a 90-percent repayment guarantee. Each partner invested an additional $3,500.

The purchase of the building and land required an initial payment of $5,000, and the $20,000 balance was financed over 10 years. No remodeling was required, as the building and adjoining parking lot were in a good state of repair. After paying $25,000 in cash for the good will, fixtures, and inventory, the partners were left with over $10,000 as an initial cash reserve.

To staff the business, the drugstore was to employ two full-time and nine part-time workers in addition to the pharmacist-partners. Schedules were drawn up wherein each partner was to work 40 to 45 hours per week, alternating shifts so that one partner would be in the store at all times. By so doing, there would be no need to hire another licensed pharmacist.

Business Operation

Eastside Pharmacy opened for business on March 1, 1969. Initial sales were comparable to those recorded by the previous owner.

About 3 to 4 months later, Eastside began to experience a decline in sales as the urban renewal authorities started displacing many of the neighborhood residents.

Sales declined slowly through the remainder of 1969 and the early months of 1970. Records of the first 12 months of operation show that gross receipts of the business totaled $220,000, 12 percent below the original projections. A small loss was incurred.

Sales continued to decline in March and April, the first 2 months of the second business year, and then remained at the $17,500 level. This was encouraging since a pharmacy normally experiences a decline in sales during the summer months. It was apparent to the partners that the residential base in the renewal area was being reestablished. In October, sales climbed to about $19,000, and the partners concluded that the worst of the disruptive period was over.

Cutting Costs —Even though sales were depressed throughout the first half of 1970 and reached only $112,000, the partners nevertheless managed to show a small profit. The primary factor accounting for the partners' success in achieving profitable operations, in spite of depressed sales, was their frugal business management. Knowing that sales would decline, they prepared

a strategy to deal with that situation. First, they reduced the number of part-time employees by two. Second, they decided to dismiss the accountant who had handled their books during the first year of operation. Mr. Fields was confident he could do an adequate job keeping the necessary records, and he began to do the firm's bookkeeping. He had no significant difficulties taking over the standard bookkeeping functions, including the preparation of monthly profit-and-loss statements and quarterly balance sheets. An outside accountant prepared the year-end statements and tax returns.

Personnel—The partners advise that difficulties with employees have increased Eastside's labor costs are above the level they think satisfactory. They have lost several good salesmen to larger companies that can afford to pay higher wages. In addition, the partners have been forced to discharge a few employees because they proved untrustworthy. Because of these factors the business has incurred higher costs incident to hiring and training new sales personnel, and to the overlapping of terminating and new employees.

Most of the employees that have worked at Eastside solicited employment directly from the partners, but a few were employed by agreement with the local unit of the Urban League. The owners contacted the League, and that organization had referred job applicants from Conner's "hard core" unemployed. For the most part those selected from the League's referrals have become satisfactory employees.

Key employees at the pharmacy include a drug clerk and a floor manager. Both have been with Eastside Pharmacy since it was taken over by the partners. The floor manager left Thomas Drug to work with the partners. In addition to supervisory and sales responsibilities, he does some of the pharmacy's purchasing.

Customer Credit—During the 18 months of operation the business' cash flow problems stemmed from failure to collect promptly on prescriptions filled for persons covered by Medicare and Medicaid. Payments for these items have been delayed by the agency administering the programs for as long as 4 months. In the meantime, the partners have to pay their suppliers. Accounts receivable for these programs often reach several thousand dollars.

The restricted cash availability has at times prevented the owners from buying supplies at cash discount rates and making large quantity discount purchases. To date suppliers have not been reluctant to provide them with credit because of their late payments. Nevertheless, the partners are sufficiently concerned about the general cash flow to consider legal action to speed payment of Medicaid and Medicare bills. They feel that the collection problem with the Government agency is a principal source of discouragement, and because of these billing difficulties have hired a clerk just to handle the Government account. Extending credit for Government-subsidized purchases is a necessary part of the business, but the partners decided to extend credit only to those customers who use an acceptable credit card service.

The partners realize that they have a long way to go to reach a more satisfactory level of business. Nevertheless, they believe that under the circumstances they have done well. Their business has proved itself to be profitable at what they consider to be the lowest possible level of sales. With that level as a base and with new residents entering the area, they feel secure in their future. Their confidence is such that they intend to open a second pharmacy in May 1971. The store will be in a new shopping center now under construction in another urban renewal area of the city. They are aware that the present operation will have to carry the second store for 6 to 12 months before the latter becomes profitable.

Messrs. Fields and Marshall are also considering relocating the present store close to the new commercial center after the urban renewal projects are complete.

Through advanced planning and cost consciousness, the owners of Eastside Pharmacy have done well in weathering adverse business conditions. They expect to do even better as local conditions improve.

26. Port Caribbean

In November 1968, New Hamstead's first authentic Caribbean restaurant opened for business. Its owner, Robert Evans, named it Port Caribbean.

Robert Evans and his family had arrived in New Hamstead 6 years earlier from Tumona, an island in the Caribbean Sea inhabited by a black population of about 700,000. His father was a restaurant owner and his uncles were all merchants in Tumona. Mr. Evans himself had managed a restaurant for 4 years before moving to New Hamstead. He had also worked as a bank teller for 10 years, 7 years in Tumona and 3 in New Hamstead, and had 3 years' experience in New Hamstead as a warehouse manager. When he started the restaurant he was 35 years of age, married, and the father of four.

Mr. Evans had graduated from a business high school in Tumona, and had taken high school level courses in American history, government, and English in the United States. In addition, he had studied banking, commerical law, accounting, and economics at a New Hamstead business school. Prior to starting his restaurant he had also attended a few workshop sessions on small business, sponsored by a New Hamstead college. His command of the English language was very good.

Mr. Evans advises that he had wanted to manage his own business ever since he was a boy watching his family run their various businesses. He says his main motivation for going into business was to "prove" himself, to be successful so that he in turn could help others to succeed.

He chose the restaurant business for a number of reasons. He had experience as a restaurant manager. In addition, his wife was an excellent cook, and had studied cooking in Tumona for 6 years. Also, he was convinced that a Caribbean specialty restaurant would be a big success in New Hamstead, which is a large commercial city with a sizable population of people from countries in and about the Caribbean Sea.

Mr. Evans believed his prospective clientele would include people from the Caribbean area living in New Hamstead, the staff and trainees from the Peace Corps' facility at the New Hamstead university, where volunteers destined for the Caribbean countries were trained; the city's many Caribbean consulates, and the university students from Caribbean countries. Several students from the university assured him that they and other students would be pleased to have a Caribbean restaurant to patronize. Officials at several consulates indicated that they would contract with his restaurant for catering services at their social events. Mr. Evans also asked four New Hamstead restaurant owners for their opinions concerning the feasibility of his intended venture. They encouraged him to go into business because his idea was good.

After waiting 6 years for his financial situation to improve sufficiently to undertake the venture, Mr. Evans finally decided that the time was right in the fall of 1968. He searched for a proper location and found a small building for sale not far from his home. The building was in a residential neighborhood, but on a block containing several small retail shops. The area was populated primarily by low- and middle-income minority individuals. It was quite far removed, however, from the central city, the university, the consulates, and sections of the city with the large concentrations of people from the Caribbean area. Mr. Evans said that he talked with each of the businessmen on the block, and all assured him that the neighborhood would be a good one for his restaurant. He purchased the building for $14,500, paying $2,000 in cash from his savings, and financing the remainder with two mortgages involving a total repayment term of 20 years.

Financing the Venture

Proceeding on the recommendation of others in the restaurant business, Mr. Evans approached the Small Business Administration for financing assistance. The SBA advised him that his proposed venture appeared reasonable, but suggested that his chosen location might bring problems. It was far removed from most of his intended customers and in an area regarded as unsafe. Mr. Evans advises that at this point he wanted to change his choice and find a site nearer the center of the city. However, since he had already purchased the

building at the first site, the SBA would not consider the alternative location. Mr. Evans saw no way to sell his building within a reasonable time and decided to proceed as originally planned.

Following the refusal of two local banks to assist Mr. Evans, the SBA extended a direct loan of $10,000. The terms of the loan called for monthly payments of $193 for 5 years, including interest of 5⅞ percent. Security for the loan included the signature of Mr. Evans and his wife, plus a lien on the restaurant's equipment. Mr. Evans also borrowed $1,500 from each of two New Hamstead finance companies, pledging his personal property as security. The latter two loans were short term and required monthly payments of about $104. Having made the $2,000 cash down payment on the building, Mr. Evans had no further savings of his own to invest.

The total initial financing of $13,000 fell far short of the $25,000 which Mr. Evans had estimated as necessary to equip, furnish, and stock the restaurant in the fashion he thought appropriate. However, he knew of no other sources of loan funds, and he had decided against a friend's offer to become a partner since the man couldn't cook.

After spending about $7,000 on equipment, $2,000 on remodeling, $2,000 on an initial stock of materials, and nearly $2,000 more on miscellaneous other items, Mr. Evans had only a few thousand dollars left as a beginning cash reserve. Unable to purchase furnishings, he leased tables and chairs at $55 per month. Excluding salaries, he estimated that his total monthly fixed costs (including mortgage and loan payments, furniture lease and utilities) would run about $625 per month. Insurance costs were minimal, as he was paying only for fire coverage on the building. He had attempted to get business insurance coverage from two companies, but was refused because of location.

Restaurant Operation

In November 1968, Mr. Evans quit his job as a bank teller, and together with his wife went to work full time at Port Caribbean. Since they had only six tables, they felt they could handle the business without other help. The restaurant was to be open 7 days per week, from 8:30 a.m. to 10 p.m. They expected monthly sales of about $6,000 to $7,000, of which $3,000 to $4,000 would represent their salaries and profit.

Mr. Evans advertised his opening to the university students, Peace Corps, and consulates by mailing advertising flyers. He also tacked the flyers on the Peace Corps facility's bulletin boards. After opening, Mr. Evans received some publicity in the form of a complimentary description and recommendation in a paperback guide to New Hamstead's restaurants. The guide commented that although Port Caribbean's decor was unimpressive (formica tables, paper plates, etc.), the food was excellent and represented one of the best buys in town at about $2 to $2.50 per meal.

Mr. Evans found that his major source of customers was the Peace Corps. His other customers were university students, consulate personnel, and an occasional church group. Only a few of the neighborhood residents came. With few exceptions, all of the customers came at lunch or supper time. Sales for the first month totaled $5,000, not far below Mr. Evans' projections. After that sales fell somewhat, averaging about $3,500 to $4,000 monthly.

While a few of Mr. Evans' customers were displeased that the restaurant did not have a liquor license, it appears that nearly all were enthusiastic about the quality of the food. Their major source of displeasure was the fact that Port Caribbean was far removed and in an area of town which they regarded as dangerous.

Mr. Evans did his own bookkeeping. He had started with an accounting firm, but when sales did not develop as expected, he could no longer afford the professional help. However, after taking on the task himself he found it difficult to find the time required. Inventory management was also somewhat of a problem, as many of the specialty items had to be reordered from Tumona; and since Port Caribbean had no storeroom, the most that could be kept in inventory at any one time was 2 weeks' supply.

Three months after startup Port Caribbean suffered an explosion in the kitchen which necessitated about $700 in expenditures for equipment repairs and replacement. The insurance company refused to cover the loss since the building had been insured as a private residence and not as a business establishment. Mr. Evans says he doesn't

understand how that happened, as he had simply continued the insurance which had been on the building when it was utilized as a delicatessen. The setback forced Mr. Evans to find another source of income, and he went to work as assistant manager of a branch bank. Henceforth, Port Caribbean was open only on evenings and weekends.

About a month after the fire, Port Caribbean suffered another misfortune. Thieves broke in and stole nearly all removable items. They took all of the food, eating and cooking utensils, a television set, and the Tumonian decorative items in the dining area. Mr. Evans says he is certain the theft was organized by someone who wanted to put him out of business, possibly a nearby merchant with whom he had had a disagreement. In support of his belief Mr. Evans advises that he received several phone calls threatening him with violence if he did not leave the neighborhood. He also points out that most of the items stolen had no possible resale value. The police were unable to recover any of the goods or develop any evidence which would identify the thieves. Again there was no insurance coverage, and Mr. Evans had to absorb a $2,000 loss.

Not long after the break in, Mr. Evans lost another $60 during an armed robbery at Port Caribbean. Again there was no insurance. The holdup so frightened his wife that she refused to return to work. A second holdup attempt failed because Mr. Evans had resorted to locking his doors, opening them only to admit customers.

Mr. Evans advises that when he started into business he tried to obtain business insurance coverage from two companies, but was refused due to Port Caribbean's unfavorable location. There had been a riot not far from there in early 1968, and dozens of stores had been looted and burned. Acting on the SBA's recommendation, Mr. Evans finally did receive coverage acceptance through the city's insurance placement facility which had come into being after the 1968 riot; however, he says that by the time the insurance coverage became available it was too late and too expensive.

Desperately in need of money following the break in, Mr. Evans returned to the SBA to request further assistance. He advises that they told him they would consider a second loan if he could present a reasonable plan, which must include a move to a better location. He suggested one new site, but says that the SBA judged it unsuitable. He made no further attempt to relocate.

Mr. Evans used what little money he could afford from the meager sales revenues to purchase the food stock and the cooking items most necessary to get back into operation. Business was very slow, however, and he began missing payments to all of his creditors. He says the SBA advised him it "couldn't carry me and would have to repossess the equipment." The mortgage holders gave Port Caribbean up for lost and foreclosed. In May 1969, 6 months after opening, Port Caribbean closed its doors.

Eighteen months later, Robert Evans is still working at the bank and trying to pay off his loans from the two finance companies. He says some of his former customers are encouraging him to open again, and that he plans to do so as soon as his financial situation will permit. Next time he says he will find a safe location close to the city's center, obtain all the necessary insurance, and start with a large enough investment to give him an adequate reserve to survive any startup difficulties.

27. Kirby's Service Station

Joe Kirby was born in 1941 in Oak Harbor, a largely industrial city with a population of 325,000. He had lived there all of his life.

Mr. Kirby completed the 11th grade, and for 10 years thereafter worked as a carwasher and auto mechanic. In 1965, at 24, he changed jobs and began working as an electrician's helper in an Oak Harbor manufacturing plant. Two years later, while still in the same job, he learned that a service station near his home was available for sale.

Early Disappointment

Mr. Kirby had wanted to be in business since he was a teenager. Because of his experience working with cars, he decided that a service station would present him with his best business opportunity. Accordingly he sought out a local oil company representative and told him of his desire to take over a station he heard was available. The representative advised Mr. Kirby that the Oak Harbor Development Corporation (OHDC)—a newly formed economic development group created to aid the minority businessman—had already selected a candidate to back for ownership of the station. Because OHDC appeared to be the key to financing, Mr. Kirby decided that it was futile to further pursue this particular venture.

Another Opportunity

Not long afterward he got a part-time job as an attendant at the service station he had wanted to purchase. While working a the station—whose opening was celebrated with much publicity by OHDC and other community groups—Mr. Kirby became witness to a steadily declining business. When Mr. Kirby learned that closing was imminent, he asked OHDC to promote his purchase of the station. He felt the station could be a success, and that the previous owner had failed only because of his poor management and lack of attention. Most critical, he believed, was the fact that the previous owner had not worked full time at the station.

OHDC contacted Mr. Kirby's principal employer, who responded with a good reference. Meanwhile, Mr. Kirby approached the oil company representative whom he knew through his part-time work at the station, and the representative agreed to help. His backing proved sufficient to convince others that Mr. Kirby was qualified to take over the station.

Unlike the previous owner, Mr. Kirby intended to work the number of hours required to assure that the business would develop successfully. Nevertheless, he knew that the initial months would be difficult financially, and indeed if his wife hadn't been employed, he would not have considered entering the business.

Mr. Kirby wanted a station in the ghetto and was well satisfied with the location of this one, which was three-quarters of a mile from the center of the city on the edge of the low-income area. The station was at the intersection of a heavily traveled commercial street and a less traveled cross street. The streets were in good repair, and the immediate vicinity was clean and attractive. Across from the station were two large warehouse distribution centers for downtown department stores. Away from the main commercial street were numerous low-income residences badly in need of repair. There was another gas station just a block away, but Mr. Kirby thought it would provide little competition because its owner "didn't cater to pumping gas," but rather concentrated on small repair.

Mr. Kirby was optimistic about his corner location and felt that sales were likely to be so good that he would soon be able to open a second station, or possibly a car wash. He expected that his major difficulty would be finding and maintaining qualified employees. In his judgment the only way to deal with that problem was to be as selective as he could in hiring.

With little participation on Mr. Kirby's part, OHDC, the oil company, and a local bank arranged for an initial financing of $8,000. Mr. Kirby himself had no dealings with the bank during the negotiations; OHDC had been his representative. Of the $8,000, $2,000 was in the form of a loan from the bank, and the remainder was a credit on the initial inventory from the oil company. The financial package was arranged in August 1969. Mr. Kirby was then sent to a 6 weeks dealer's course offered by the oil company.

Open for Business

Mr. Kirby returned in September, and on the 29th of that month Kirby's Service Station opened for business. Having made only minor purchases out of the funds from the bank, Mr. Kirby began his operation with less than $2,000 in cash.

Mr. Kirby spent $90 in radio advertising at the time of opening, although he was of the opinion that advertising was of no benefit to a service station. He felt, rather, that the principal means of attracting business were good service and a clean station. He hired one full-time and three part-time employees.

Mr. Kirby says that the winter of 1969-70 was an especially bad one, and that the foul weather

had a depressing effect on the new venture's sales. Sales for one month reached $1,000, which proved to be a high for the business. Other months were as low as $300. Not only were the sales extremely inadequate, but costs were higher than he had expected. To the normal costs were added the extra expenses of keeping the station's entrances, exits, and car bays clear of snow. Rent on the station began at $50 per month for the first 3 months, and was to increase by $50 per month during each subsequent quarter up to a maximum of $200 per month. The utility bills, especially heating costs, were high during the winter. Salary expenses started out at $350 per month, excluding the $100 per week that Mr. Kirby intended to draw. In addition, of course, there were the payments on the loan he had received from the bank. The oil company collected the payment on its initial credit by adding to the regular gas bill a small amount per gallon sold.

With sales running far below the anticipated level and his supply of working capital running low, Mr. Kirby experienced difficulty maintaining even a minimal inventory. Often he did not carry items requested, and either had to turn the customer away or ask him to wait while he went to purchase the item. After the initial inventory stock was depleted, the purchase of all further inventory items was accomplished on this piecemeal basis. The inventory continued declining throughout the winter and early spring.

On the advice of an accountant that he had retained after the first 3 months, Mr. Kirby attempted to lower his overhead costs by reducing his part-time employees from three to one. He also reduced the number of hours that the station operated.

A Search for Help

As Mr. Kirby says "by the time the weather broke, so was I." He approached OHDC in the spring of 1970 in order to request their aid in securing additional financing. He again left things entirely in the hands of OHDC and the oil company representative. He felt he was totally dependent upon them for additional funds due to his own lack of financial knowledge and to the unprofitable position of his business.

Conversations between OHDC and the oil company concerning Mr. Kirby's need for more working capital were undertaken, but Mr. Kirby was neither informed of what they discussed nor of their final decision. He only knew that no one came up with the money he needed.

Mr. Kirby believes that OHDC had tried so hard to rescue his predecessor at the station that they were discouraged from investing an equal amount of time and resources with another person.

Mr. Kirby began to realize that there was little possibility of overcoming his financial difficulties. By June he had put over $1,000 of his own funds into the business. He had run out of money and had no prospect of getting more to provide the station with an adequate supply of inventory items. Mr. Kirby hadn't drawn his own salary since April and had had difficulty meeting the payroll. He had never been able to make any payments on the bank loan and was behind on utility bills. Although Mr. Kirby feels that he should still "be out there," he closed the station doors in June, 9 months after opening.

Summing It Up

Mr. Kirby concedes that he should have known more about managing a business and feels that had he received the same amount of financial help and technical assistance that his predecessor received, he would still be in business. He still thinks that the location and his service were good, and that toward the end the employees were also of good quality. Furthermore, if sales had been higher, there would have been time for him to develop the knowledge and managerial ability that the operation required. Mr. Kirby thinks that when an inexperienced person is provided funds to start a business, he should be given sufficient advice and assistance to get him through the difficult startup period. He suggests that business counselors be made available to those who require them.

Mr. Kirby is considering entering business again, either in another service station or in an auto accessories retail outlet. He doesn't feel that the termination of his last venture will hinder him, although he still owes money to the bank, the Internal Revenue Service, and the oil company. He is confident that anyone who knows the story will not blame him for closing.

Aside from the experience he gained, Mr. Kirby feels that there has been one questionable benefit in that some acquaintances who had become a little envious and distant while he was operating the station now want to be his friends again. Mr. Kirby is skeptical.

28. Quickair Flyers

Delmar Fadden is more interested in being in aviation than in being in business. He has had a long time interest in flying and now at the age of 27 and single, he is a full-time pilot for Mideast Airlines, a scheduled regional carrier. He is also the owner-manager of Quickair Flyers, a charter service which he founded in February 1969.

Mr. Fadden attended 1 year of college where he took courses in electrical engineering. In 1962 he began a 5-month pilot training course at a flying school. Following its completion, he established a small flying school of his own at a general aviation field in Porterville, about 10 miles from Concord. Mr. Fadden saw this venture as an opportunity to build up his own flying and business experience. The flying school remained open until 1966 when Mr. Fadden became a pilot for Mideast.

Mr. Fadden felt that blacks had little opportunity to break into commercial aviation and therefore had not expected the Mideast appointment. In fact at the time he was hired he was considering initiating a charter service.

For Mr. Fadden being self-employed is very important. Although he wanted the position with Mideast, he also wanted the feeling of independence and security that would result from knowing that this particular job was not the only opportunity available to him. In part he was also motivated to start his own aviation business in order to provide black pilots and aviation employees with a means of entry into the field.

Mr. Fadden's schedule with Mideast left him free 16 days of each month during which he could attend to a charter service Nevertheless, he knew that a full-time pilot would be essential to the operation of the prospective business. He worked with Mideast for 3 years before he located a suitable pilot and found himself in a position to consider starting the charter service as a supplement to his position as an airline pilot.

Planning the Venture

Mr. Fadden decided he would base his new operation at the Concord airport, because he foresaw that its traffic was likely to expand significantly over the next 10 years, and his charter service could benefit accordingly. The airport provides flight facilities for Concord, a city of 400,000, the city of Edison, 200,000, and Porterville, a college town of 25,000. All three municipalities are within 30 miles of the airport. He discounted a return to the Porterville airfield because of the greater potential of the Concord airport. Entering into that decision was the fact that the university at Porterville operated a fleet of small planes, for use of the university community, which would provide stiff competition to any commercial charter service locating at the same field.

His competitors, as he saw them at that time, would include a large aviation services company located at the Concord airport, two smaller charter services, and the university's fleet. The larger company provided a wide range of aviation services and had the major share of the Concord-Porterville charter market.

Mr. Fadden felt the large company would provide serious competition, but that its high-volume operation was generating increased demand for charter service in general. He intended to keep prices at a rate below those of the larger company. He felt the two smaller charter services would not present any competitive problems because Quickair would offer more flying experience and a wider range of service.

Mr. Fadden intended to look for business among current users of charter services rather than to try to develop business among non-users. His customers, he anticipated, would be companies that had continuing business travel and the manufacturers that required rapid delivery of goods. He planned

to reach these prospective customers primarily through personal contact. This he did, but received no assurance of business. The response generally was that, once he was established, they might consider his services.

Mr. Fadden was apprehensive about customer acceptance of a new business in the aviation field, especially when that business was black owned and operated. Air travel is a sensitive area in the public's view, and the newness of the operation coupled with the presence of a black pilot, he felt, might discourage business. Nevertheless, he was willing to rely on the fact that he was well known in the area. His family was well established in Concord, where his father was president of the First Concord Bank.

In order to assist the company in its infancy, Mr. Fadden decided not to draw any salary from Quickair. He planned to stay with Mideast which, by itself, adequately met his salary needs. He expected Quickair to show a profit in about 2 years.

Mr. Fadden intended that eventually his business would expand to provide, in addition to charter service, a full range of related services including aircraft sales and maintenance, flight instruction and scheduled air carrier service. He foresaw expansion into other towns and States.

Mr. Fadden anticipated no difficulty in obtaining the necessary capital, which he estimated at $36,000. He was familiar with available financing programs due to his father's involvement in the financial community. The full $36,000 was in fact obtained. A loan of $29,000 was provided by the First Concord Bank, with repayment scheduled for a 10-year period. The loan was secured by a 90-percent SBA guarantee and a chattel mortgage on the equipment purchased. Equity capital totaling $7,000 was provided by Mr. Fadden and two relatives, with Mr. Fadden holding 90 percent of the stock.

Mr. Fadden purchased a small used plane for $27,000. No office location expenses were incurred as the business was to be run from Mr. Fadden's home. Other startup costs were minimal, and Quickair had nearly $9,000 in cash remaining at the time of opening. He anticipated fixed expenses for the first year's operation at approximately $8,000, to cover airfield costs, financing costs, insurance, and a $3,000 salary for the full-time pilot. In addition, the full-time pilot was to receive a commission based upon the volume of business. No profits were expected on the projected first-year sales of $20,000.

A False Start and a New Beginning

In February 1969, Quickair opened for business. One month later the full-time pilot quit. At this point, Quickair had failed to leave the ground.

The business sat idle for the next 3 months, until Mr. Fadden obtained a 9-month leave of absence from Mideast and re-initiated operations by himself, renting an office at the Concord airport for $55 per month. A second full-time pilot was hired shortly thereafter. However, neither the level of business nor the new pilot's proficiency justified his retention. Therefore, he was eventually dismissed. In part, because of the 3-month lapse in operations, first-year sales reached only $14,800, and a net loss of $7,000 was incurred.

In May 1970 a third pilot was hired on a full-time basis, and Mr. Fadden returned to Mideast. He continued to work 16 days per month with the flying service. In July 1970 the company added flight instruction to its existing charter service, leased a second light plane, and hired a part-time flight instructor.

For the 8-month period from January through August 1970, sales amounted to $22,500. Profits for the same period totaled $4,200.

Business Operations

The company's fixed costs have remained low. Utilities and rent for the airport office still total $55 per month. As the full-time pilot assumed more of the responsibilities for operating the business, his salary was increased to $7,200 per year plus commissions. The part-time flight instructor is paid on an hourly basis. Insurance costs for liability and complete hull coverage on the aircraft are $2,000 per year.

Recordkeeping has been a continual headache for Mr. Fadden. He indicates that he is not sure that he is keeping all the records that he needs or that would be of benefit in running the business. Once every 6 months he has to call in an accountant "to straighten the mess out." Mr. Fadden hopes to find a solution to his record problems

soon, and suggests that anyone who intends to enter business for himself should first find a good accountant or bookkeeper.

Since inception, the bulk of Quickair's business has come from cargo and passenger charter service. The company's principal customers have been local companies with requirements for personnel travel or the need for urgent delivery of equipment or material. Mr. Fadden has not been able to develop any of the regular delivery contracts that he had hoped would constitute a base for the business. He has sought both government and private contracts, but has been unsuccessful. The business that he has generated has been on an "as needed" basis, which he feels does not provide the company with the stable base it needs. Mr. Fadden admits that his sales technique may not be adapted to the realities of the market, but he does not care to participate in the "wining and dining" approach to sales which might lead to increased business.

Quickair would like to obtain some contracts for U.S. mail delivery, although Mr. Fadden realizes his company's rates for that type of service would necessarily be higher than those charged by regional carriers and larger companies. He says he has attempted to obtain such contracts through the U.S. Government's set-aside program for small businesses, but thus far has been unsuccessful.

Mr. Fadden feels that the quality of service he provides is at least equal to, and perhaps better than, that of his largest competitor. Further, his rates are generally 10 percent lower. He feels that the highly individualized customer attention of Quickair constitutes a valuable competitive strength. He assesses the current weaknesses of his firm as compared to the large company to be: (1) Quickair is relatively unknown, (2) it does not have enough planes to assure availability of service at all times, (3) it doesn't offer a full range of aviation services, and (4) it is black owned, a circumstance which eliminates certain potential customers.

Mr. Fadden feels that the two smaller charter services do not constitute a significant competitive problem inasmuch as his service is of higher quality and wider range. He does feel that the university's charter fleet hurts his business, as the more liberal university community could be a source of sales for a black-owned charter service were the university's fleet not so readily available.

Mr. Fadden is satisfied with the increase in business, but is disappointed by his failure to develop any supporting base through term contracts. He expects sales to continue to increase and is optimistic that eventually he will be able to obtain some such contracts. Included in his plans for the next 2 to 3 years are the addition of a maintenance facility, a sales organization and scheduled air taxi service. He is currently negotiating a loan for the purchase of a used aircraft, which will bring the total number in the fleet to three—two owned and one leased.

Mr. Fadden advises that the most discouraging and difficult problem he has had to face has been the reluctance of the public to accept a black business in the aviation field. He thinks that the solution, other than that provided by the passage of time, must come from his own effort to develop an increased awareness of the quality of his service. He further comments that until both black and white sectors of the community cease to assume that a black business necessarily offers an inferior product or service, that this will continue to be a problem with which all black businesses must deal. In the meantime, Mr. Fadden is proving the quality of his product and developing a successful business in the activity that gives him most pleasure.

29. Woman's World

Cliff Gibson was born in Pittfield in 1939. The son of a general laborer, he finished high school and then went on to spend 1½ years studying mathematics at a local black university. In 1958 he began work as a laboratory technician and later became a re ch technician a predominantly white univers in Pittfield. Two years later, in order to supplement his income, he began selling

clothes in a men's store on a part-time basis. As a part of his job at the clothing store, Mr. Gibson sold men's clothes from his car. He held both the job at the university and the one at the men's store until late 1967, when he quit the latter to start a business for himself.

Mr. Gibson had decided that since he had some success selling clothes from a car, he would have a door-to-door sales business. He believed that with his limited university education, self-employment was the way of life that could provide him with the satisfaction and the income level that he desired. He had discounted the possibility of returning to school and, furthermore, had decided that the job as a research technician would provide him with little opportunity for advancement. He had begun to consider establishing a door-to-door sales business in mid-1967, and by December he made his decision and the necessary arrangements.

Starting Small

With $1,200 of his own savings, a $500 personal loan from a local black-owned bank, the National Bank of Pittfield, and $300 borrowed on his life insurance policy, Mr. Gibson bought a used bus and equipped it to serve as a mobile base for his sales operation. The cost for this totaled $700. He purchased $1,200 worth of men's clothing, and with less than $100 remaining began selling in December 1967.

Mr. Gibson was married and his wife had steady employment. He could count on her income to take care of a portion of the household expenses. In addition, he intended to sell clothes only on weekends and in the evening until sales and earnings justified his resigning his job at the university. He believed that the bus operation would show a profit from the start, but felt that it would not be sufficient to meet his personal financial requirements.

To Mr. Gibson, the bus-based operation was a unique idea; he felt that it would "catch on" and he envisaged that some day a fleet of buses would be operating in Pittfield and in other cities of the State. Initially, however, he was satisfied with the one bus and intended to work about 30 hours per week.

His geographic market consisted of black residential areas, the black university, and a local business school. The method of operation varied. In the residential areas he would drive the bus through slowly, sounding a horn. In addition, a few customers would telephone and ask him to come to their homes. At the schools Mr. Gibson established a regular time and place for his clients to shop and purchase.

Mr. Gibson used the bus from December 1967 until the vehicle's license expired in April 1968. He then began to sell men's suits and shirts from his car, because he lacked money to put the bus on the road again. Meanwhile, he continued his day-time work at the university.

In early 1968 Mr. Gibson learned about the Small Business Administration's loan program, and saw this as an opportunity to reinitiate operations from the bus and to increase his limited inventory. He sent a letter to the SBA, and upon receiving an application form, approached a local organization created to promote minority entrepreneurship. The organization assisted Mr. Gibson in applying for an SBA-guaranteed loan from the National Bank of Pittfield. In addition, the organization sponsored a 12-week course in business management which Mr. Gibson attended.

In September 1968, Mr. Gibson received a 7-year, $7,500 loan from the National Bank of Pittfield. Security on the loan included Mr. Gibson and his wife's personal liability and a lien on certain assets. With the $7,500 he increased his inventory of men's clothing and added ladies' apparel. He also put the bus back on the road and bought some radio advertising.

Once back in operation, Mr. Gibson was able to boost total sales for the 12 months of 1968 to $20,600, and produce a net profit of $3,400. He withdrew no salary or profits during the year.

During 1969 Mr. Gibson continued to operate his bus. In April he quit the job at the university to devote full time to his mobile store. At that time, he began paying himself a salary of $40 per week. Total sales for 1969 amounted to $22,500 and the net profit was $600.

By the fall of 1969, Mr. Gibson had become skeptical of the possibility of developing the bus-based operation into the size of business that would satisfy him. The bus itself required constant attention, and he felt that he was putting too much

time into repairing the bus rather than in selling clothes. Furthermore, operating from the bus, he was not able to get suppliers to ship their goods on credit. This drastically limited the amount of inventory he could carry. Finally, the inventory was not insurable while on the bus. Because of these difficulties and because sales had not met his expectations, Mr. Gibson decided to look for a store.

Expansion

In November 1969, Mr. Gibson learned of the financial difficulties of a women's clothing store called the Spiffy Shop, located in downtown Pittsfield. The owners were about to enter bankruptcy proceedings. Although he had considered locating in a suburban shopping center, Mr. Gibson settled upon a downtown location because of the lower rent and the availability of the shop.

The Spiffy Shop was going out of business, Mr. Gibson decided, because of poor management, largely the result of the owners leaving the management of the store to others and not attending to it themselves. The store had been in operation for less than a year and had a good downtown location. There was no need for remodeling as that had been done just prior to the Spiffy Shop's opening.

Through an arrangement with the Spiffy Shop's owners in November 1969, Mr. Gibson became temporary manager with the intention of buying. He managed it until the owners entered bankruptcy, and the shop closed on February 1, 1970. Mr. Gibson continued negotiations for purchase of the shop's equipment and inventory.

The bankruptcy sale price for inventory and equipment was set at $7,500. Realizing that another SBA-backed loan would probably require at least 3 months for approval, Mr. Gibson decided it was necessary to seek other means of financing the purchase. He returned to the same bank that had provided his original loan, and by refinancing his home, was able to obtain $5,000. In addition, the bank loaned $1,500 on a personal note that was to be repaid over 18 months. The remaining $1,000 was provided from his personal savings.

A Second Opening

In mid-March the purchase was concluded, and on March 20, 1970, Cliff Gibson opened his new store, Woman's World.

Mr. Gibson anticipated selling to a young market, principally black, of high school and college age. He also felt that he could count on a substantial portion of the trade he had developed on the bus to begin shopping at his downtown location. Although there were several women's clothing stores in the downtown area, he was concerned with the competition of only one, a woman's boutique located four blocks away. The boutique also sold stylish fashions for the young buyer. Mr. Gibson felt that he could maintain competitive prices, and that his knowledge of the clothing tastes of his customers would assure him a place in that market. He planned to expand Woman's World and, as soon as it was profitable, to open other women's clothing stores.

Mr. Gibson projected $100,000 in sales for the first year of operation, five times the annual sales he had experienced with the bus. On this amount he expected $20,000 pre-tax profits. The second year's sales and profits were projected at 50 percent above the first. Mr. Gibson was to be salaried at $125 per week. He would still be making 60 percent less than he had received while working full time at the university, but he was optimistic that the future would bring him increased opportunities and financial rewards.

Business Operation

Upon opening Woman's World Mr. Gibson was confronted with a major inventory problem. When he had purchased the business he was required to buy all of Spiffy Shop's assets, including its inventory, which consisted primarily of those slow-moving items that had been passed over time after time by the shop's customers. Furthermore, Mr. Gibson did not feel that the clothes were of the kind, style, and quality that he wished to stock and that would appeal to his fashion-conscious market.

Mr. Gibson was also faced with the requirement to develop his credit standing with suppliers of the type of women's clothing that he intended to stock. In order to do this, he sent his financial statements to business services which provide credit information to manufacturers and wholesalers in the clothing industry. Realizing that good credit depends

upon prompt payment, Mr. Gibson did not allow himself to get behind in payments to those companies from whom he was able to obtain credit terms.

In August Mr. Gibson sought and received a 90-day loan from the National Bank of Pittfield in the amount of $4,500. He needed this financing in order to buy stock for the fall and winter season, after the summer's seasonal drop in sales had left him short of cash.

Once he had expanded his inventory, Mr. Gibson sent amended financial statements to the credit rating services. The improved asset position of the company, coupled with a growing record of prompt payment of his obligations, soon enabled Mr. Gibson to take advantage of standard credit terms on purchases from about 90 percent of his suppliers. Prior to that time, less than half of his suppliers had granted him credit. Obtaining new supplier credit to allow building a large inventory had been his most significant problem. He now feels that the problem is close to complete resolution.

When he began to operate the store, Mr. Gibson's sister-in-law helped him out by selling on a part-time basis. Shortly thereafter he employed a full-time salesgirl, also black. In the late summer of 1970, with students about to return to the local universities, he decided to hire a part-time salesgirl to take care of the increased volume. Since his school-year clientele was about 30 percent white, he hired a white university student to work a 20-hour week. The full-time salesgirl works 40 hours and in addition to her sales work, helps Mr. Gibson with his bookkeeping. She also is in charge of the shop on those few occasions when he leaves the store. Mr. Gibson himself finds that the business generally requires 60 hours per week.

Because of difficulty in collecting from customers who had purchased on credit while he operated out of the bus, Mr. Gibson discontinued all personal credit when he opened Woman's World. However, realizing that credit of some form is essential to a retail business such as his, he now accepts the cards of two national credit card services. He says that he is certain that he is losing some sales because of his refusal to grant personal credit; however, he believes that the collection problems are too many and the risk of loss too high to justify returning to his previous policies.

Between March, when he opened, and th[illegible] end of October 1970, sales amounted to $3[illegible]00, somewhat lower than Mr. Gibson had projected. He ascribes this to his difficulties in replacing the prior merchandise with those styles frequently requested and purchased. With the school year beginning, he feels confident that sales will meet the levels indicated in his projection. Indeed, the recent sales trend definitely has been up, as sales in August, September, and October were $2,900, $4,500, and $6,300, respectively.

Mr. Gibson identifies his market as the middle income, 16 to 35 age group. Thirty percent of the customers during the 9-month school year are white, but during the summer recess virtually all of the trade comes from the black community. He is discouraged by the fact that the customers developed by the bus operation have not followed him to his new location, but he intends to compensate for this by making increased inroads into the white market.

Mr. Gibson intends to open another store in the near future. He has found the experience to be enjoyable and even though he is still making less than he was at the university he feels that the business has brought his family closer together. His increased knowledge of the operation, and his successful resolution of the problems he faced in changing from the bus to the store, indicate a bright future for Cliff Gibson and Woman's World.

30. The Savoy Restaurant

Ruth Flood was born and raised in Riverside, a Southern city of 275,000. Leaving school in the eighth grade, she began work as an assembly line inspector for a local manufacturing plant. She subsequently took a position as a saleswoman and later as a sales manager for a door-to-door houseware distributor. From 1958 to 1962 Mrs. Flood was owner of a night club called the "Savoy." She

sold the club because it kept her from her family, and went to work for a door-to-door jewelry sales company. After 8 years selling jewelry, she decided that she preferred having her own business. She had grown tired of traveling and thought that a business would provide her with a higher income for meeting the needs of her family of seven, for which she was the sole means of support. In addition, she felt that the business would provide a common bond and interest for her family.

Opportunity Knocks

Mrs. Flood decided to open a dress shop, largely because of her personal interest in clothes and dressing fashionably. She asked the advice of several people, none in the clothing business. All were encouraging and expressed their confidence in her ability to establish a successful shop. With the help of friends she began looking for a suitable location. While looking, however, she was told of a small cafe whose owner was interested in leasing the operation to someone else. She immediately abandoned the idea of a dress shop. With little advice, but substantial encouragement from friends, she decided to enter the restaurant business.

The buiding in which the restaurant was housed was in a low-income, low-density residential section on the outskirts of the city. The restaurant was at the rear of a one-story brick building, set back from the intersection of a residential street and a principal road leading out of town. The front of the building housed a small market and a self-service laundry. Parking was limited to a few spaces, but ample street parking was available not far from the building. The restaurant being at the opposite end of the building, was barely visible from the street. The only commercial establishment within several blocks were the two in the same building, plus two gas stations at the nearby intersection.

Mrs. Flood was satisfied with the building, its location, and the fact that there was no competition in the area. She was not bothered by the lack of pedestrian traffic along the street because she intended to cater principally to local residents and acquaintances. Because her club had been in the same area, she felt that she was well known. Furthermore, she believed that with some of her children attending college only a half mile from the restaurant, she would be able to attract some of the college trade. Her principal concern was based upon her fear of burglaries and disruptions caused by unruly local residents. She believed, however, that she might prevent these problems from arising through fair treatment of her clientele and neighbors. Full of enthusiasm, she was not discouraged by the fact that the owner was abandoning the business because of his failure to make it profitable.

Mrs. Flood anticipated sales during the first year of \$24,000 and planned to retain approximately \$8.000 to \$10,000 of this for the support of herself and her family. For the first 2 months, however, she planned to live off her savings. Eventually, Mrs. Flood hoped to open other restaurants in the city and, later, in other towns of the State.

In September 1969 Mrs. Flood secured a personal bank loan of \$2,000. The loan was to be repaid over 12 months and called for the pledge of her car as collateral. In addition, she invested \$1,000 of her own savings She concluded arrangements with the building's owner, who agreed to lease her the restaurant, the furniture, and all equipment at a total rent of \$175 per month. She was not required to purchase anything except her initial stock of food and condiments, which were to cost under \$1,000. Other costs of startup were minimal, and when the Savoy Restaurant opened in October 1969, Mrs. Flood had a beginning cash reserve of \$1,500.

Business Operation

Mrs. Flood had no experience in food service but managed to hire two cook-waitresses who had worked in restaurants. An additional waitress was hired on a part-time basis 2 weeks later. In addition to herself and her employees, friends and relatives also helped occasionally. Referring to her employees, Mrs Flood says, "they knew the restaurant business and I didn't." "They had the experience." The employees earned from \$1.40 to \$1.85 per hour. The two cook-waitresses worked from 40 to 45 hours per week. Weekly wages totaled from \$130 to \$160. Mrs. Flood herself put in from 65 to 75 hours, but drew no money from the business. Utilities cost about \$190 per month.

The Savoy Restaurant served low-priced meals

from early morning until after the dinner hour. According to Mrs. Flood the quality of the meals was high. A complete meal on the dinner menu cost from $1.25 to $1.40. The Savoy Restaurant extended no personal credit to its customers.

Sales did not develop as Mrs. Flood had anticipated. She began distributing flyers announcing even lower priced specials in order to draw more customers. She also tried a limited amount of radio advertising. By February all the money from the original $2,000 loan was gone, and she had to borrow $2,000 from a brother in order to keep the restaurant in operation.

Sales continued at a low level, and Mrs. Flood cut expenses by reducing the number of hours of the employees. As a result Mrs. Flood herself was required to work longer hours. Radio advertising, which she had concluded was of little benefit, was curtailed. Although she could have received credit from some of her suppliers, Mrs. Flood decided that she would pay cash for all of her food and supplies. Furthermore, her inexperience led her to purchase items that didn't sell, and she incurred losses as a result.

Beginning in July she operated only with the help of friends and family, as the paid personnel agreed to find other employment.

In August 1970 she notified the owner that she was closing as soon as she finished the year's lease. In October she ended her brief attempt in the food service business and turned the establishment back to its owner. During the year's operation the Savoy Restaurant had registered $13,000 in sales, much below the $24,000 Mrs. Flood had predicted. At no time had she drawn any salary or profits.

Mrs. Flood recognizes that her lack of experience caused her to make mistakes in the operation of the business. However, she ascribes the main reason for the restaurant's failure to its poor location. She says, "there just weren't enough people coming in." She believes that if the location had been better—perhaps on the street rather than at the opposite end of the building—she would have attracted sufficient business to keep the restaurant alive long enough to gain the experience and knowledge necessary to develop a profitable venture. She says she should have known more about the restaurant business before starting, and that she should have examined the books of the previous owner before making the decision to invest her time and money. However, because her personal investment and the amount borrowed were minimal, she was able to leave this business adventure with little disruption to her personal life. She expects to have the debts repaid shortly. She hopes to enter business again in the near future. That business will not be a restaurant.

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